



I N T E V A C

2016 ANNUAL REPORT | 2017 PROXY STATEMENT

INTEVAC, INC.

LETTER TO OUR STOCKHOLDERS

INTEVAC, INC.

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Letter to our Stockholders

2016 was an outstanding year for our company. In our Thin-film Equipment business, we achieved six-year record highs in orders and backlog, and have built the foundation for significant revenue growth outside our core hard disk drive (HDD) business. We expanded the revenue opportunity pipeline for our Photonics business by investing profits to develop technology demonstrators that showcase the advantages that digital night vision brings, and put that technology into the hands of the users.

To summarize the highlights for the year:

- Revenue of \$80 million was up 7% over 2015.
- We launched VERTEX™ oDLC™, took revenue on our first VERTEX, booked our first multi-system capacity order for volume production of mobile phones and watches, and won a second Tier-1 customer for the VERTEX.
- We won orders for eight 200 Leans – the highest level since 2010; demonstrating the continued need for advanced technology investments in the hard drive industry.
- We took revenue on two solar systems, and ended the year with three more in backlog, helping to bring total Thin-film Equipment backlog to \$46 million; the 4th straight year of backlog growth.
- In our Photonics Business, we developed demonstrators for our latest digital night-vision technology, and after successful demonstrations with both the US Army and Navy, realized significant expansion of our revenue opportunity pipeline.
- And financially, we accomplished several key objectives for 2016: revenue growth, improved gross margin, positive cash flow from operations, and a net increase in our cash balance year-on-year.

THIN-FILM EQUIPMENT

Revenues in 2016 for our Thin-film Equipment business were \$45 million, up 14% from 2015. The most exciting driver of significant revenue growth over the next year or two is the VERTEX, which deposits our optical diamond-like carbon, or oDLC, protective coating on display cover panels. The production capacity order booked in 2016 was an important milestone for this business, and winning a

second Tier-1 customer for the VERTEX, later in the year, was equally significant.

Based on the success in new tool orders in 2016 and the ongoing sampling activity in house; we have increasing confidence that the Intevac VERTEX system incorporating our oDLC film can address multiple applications in the cover panel market, and represents the largest near-term growth opportunity in our Thin-film Equipment business.

We are also seeing a strengthening base of business in our core HDD market. Industry fundamentals exceeded expectations in 2016 and showed encouraging evidence of stabilization. We believe media shipments had their strongest 2nd half versus 1st half growth in at least seven years – and the average number of disks per drive exceeded 2.0 exiting the year.

Our 2016 orders for eight 200 Lean® systems led to better-than-expected sales growth over 2015. We shipped four systems in 2016, and the four systems in backlog support our view that 2017 will be a similar year in our HDD business.

In the solar market, which has continued to be challenged over the last several quarters; we made significant progress in 2016 as we reentered our MATRIX™ PVD system for advanced n-type solar cells, as well as progressed with our joint R&D program on MATRIX for ion implantation.

Given that some high-efficiency n-type capacity was announced to be coming off line, we expect the market for our MATRIX solar products will be soft over the next year. However, in spite of the current challenging environment in the solar industry, we announced two ENERGi™ implant systems in 2016, for a new solar cell technology, which led to a record solar follow-on order for 12 n-type solar implant systems, expected to ship in the 2nd half of 2017.

PHOTONICS

Revenues in 2016 were \$35 million, which as expected was similar to 2015. Operating profitability of 17% exceeded the 15% we achieved in 2015, favorable to our long-term model for this business.

We are pleased to report that both the US Navy and Army are engaged in funding discussions for our next-generation night-vision sensor, the ISIE-19.

Previously we were developing two separate sensors, the ISIE-12 and 14; now we have merged both branches' requirements into a single new sensor design to meet everyone's needs.

In 2016, we developed two new technology "demonstrators," which completed demonstrations in the second half of the year. This activity has been a great success for the future trajectory of our Photonics business. The successful demonstrations, and the positive reactions to our latest technology enhancements, have helped grow our overall revenue opportunity pipeline.

Our digital night-vision monocular demonstrator, which is targeted for the ground force ENVG-4 or (4th-Generation Enhanced Night Vision Goggle) program, was well received. Its advanced capability generated interest from the US and Foreign Special Operations forces for a binocular version, and also demand for us to productize the demonstrator for unique applications prior to the introduction of the ISIE-19 sensor, which will be the core technology for the ENVG-4 application.

Based on all the new program activity in 2016, what we are working on with the US and Foreign Militaries, as well as our customers for dismounted soldier systems, we have expanded our revenue opportunity pipeline to over \$1.4 billion over the life of the programs we are engaged with and are pursuing.

SUMMARY

I am extremely pleased with the progress the Company has made over the last three years to diversify our Thin-film Equipment business and position our Photonics business. With significant growth in orders and backlog, 2016 marked an inflection point in the revenue growth trajectory of Intevac.

Given our current engagements, with both new and existing equipment customers, we have forecasted revenue growth of at least 25%, and a return to profitability, in 2017.

Finally, I'd like to thank the employees for their hard work, dedication and success as we repositioned the Company. To our customers and stockholders, I thank you for your ongoing commitment.

Sincerely,

A handwritten signature in black ink, appearing to read "Wendell T. Blonigan", with a long horizontal flourish extending to the right.

Wendell T. Blonigan
President & CEO

NOTICE OF 2017 ANNUAL STOCKHOLDERS MEETING AND PROXY STATEMENT

INTEVAC, INC.

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I N T E V A C

April 12, 2017

Dear Stockholder:

You are cordially invited to attend the 2017 Annual Meeting of Stockholders of Intevac, Inc., a Delaware corporation, which will be held Wednesday May 17, 2017 at 3:30 p.m., Pacific daylight time, at our principal executive offices located at 3560 Bassett Street, Santa Clara, California 95054. The accompanying notice of Annual Meeting, proxy statement and form of proxy card are being distributed to you on or about April 12, 2017.

Details regarding admission to the Annual Meeting and the business to be conducted are described in the accompanying proxy materials. Also included is a copy of our 2016 Annual Report. We encourage you to read this information carefully.

Your vote is important. Whether or not you plan to attend the Annual Meeting, we hope you will vote as soon as possible. You may vote over the Internet, by telephone or by mailing a proxy card. Voting over the Internet, by telephone or by written proxy will ensure your representation at the Annual Meeting regardless of whether or not you attend in person. Please review the instructions on the proxy card regarding each of these voting options.

Thank you for your ongoing support of Intevac. We look forward to seeing you at the Annual Meeting. Please notify Wendy Mignosa at (408) 496-2242 if you plan to attend.

Sincerely yours,

Wendell Blonigan
President and Chief Executive Officer

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INTEVAC, INC.
3560 Bassett Street
Santa Clara, California 95054

**NOTICE OF ANNUAL MEETING
FOR 2017 ANNUAL MEETING OF STOCKHOLDERS**

- Time and Date:** Wednesday, May 17, 2017 at 3:30 p.m., Pacific daylight time.
- Place:** Intevac's principal executive offices, located at: 3560 Bassett Street, Santa Clara, California 95054.
- Items of Business:**
- (1) To elect six directors to serve for the ensuing year or until their respective successors are duly elected and qualified.
 - (2) To approve an amendment to the Intevac 2003 Employee Stock Purchase Plan to increase the number of shares reserved for issuance thereunder by 500,000 shares.
 - (3) To approve an amendment to the Intevac 2012 Equity Incentive Plan to increase the number of shares reserved for issuance thereunder by 1,000,000 shares and make certain other changes to the plan, and to approve the material terms of the plan.
 - (4) To ratify the appointment of BPM LLP as Intevac's independent public accountants for the fiscal year ending December 30, 2017.
 - (5) To recommend, by advisory vote, executive compensation.
 - (6) To recommend, by advisory vote, the frequency of holding an advisory vote on executive compensation.
 - (7) To transact such other business as may properly come before the Annual Meeting or any postponement, adjournment or other delay thereof.
- These items of business are more fully described in the proxy statement accompanying this notice.
- Adjournments and Postponements:** Any action on the items of business described above may be considered at the Annual Meeting at the time and on the date specified above or at any time and date to which the Annual Meeting may be properly adjourned or postponed.
- Record Date:** You are entitled to vote if you were a stockholder of record as of the close of business on March 28, 2017.
- Voting:** **Your vote is very important. Whether or not you plan to attend the Annual Meeting, we encourage you to read the proxy statement and submit your proxy card or vote on the Internet or by telephone as soon as possible. For specific instructions on how to vote your shares, please refer to the section entitled "Questions and Answers About Procedural Matters" and the instructions on the enclosed proxy card.**

All stockholders are cordially invited to attend the Annual Meeting in person.

By Order of the Board of Directors,



JAMES MONIZ
*Executive Vice President, Finance and
Administration, Chief Financial Officer and
Treasurer*

This notice of Annual Meeting, proxy statement and accompanying form of proxy card are being distributed on or about April 12, 2017

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INTEVAC, INC.
3560 Bassett Street
Santa Clara, California 95054

**PROXY STATEMENT
FOR 2017 ANNUAL MEETING OF STOCKHOLDERS**

QUESTIONS AND ANSWERS ABOUT PROCEDURAL MATTERS

Annual Meeting

Q: Why am I receiving these proxy materials?

A: The Board of Directors (the “Board”) of Intevac, Inc. (“we,” “us,” “Intevac” or the “Company”) is providing these proxy materials to you in connection with the solicitation of proxies for use at the 2017 Annual Meeting of Stockholders (the “Annual Meeting”) to be held Wednesday, May 17, 2017 at 3:30 p.m., Pacific daylight time, or at any adjournment or postponement thereof for the purpose of considering and acting upon the matters set forth herein. The notice of Annual Meeting, this proxy statement and accompanying form of proxy card are being distributed to you on or about April 12, 2017.

Q: Where is the Annual Meeting?

A: The Annual Meeting will be held at Intevac’s principal executive offices, located at 3560 Bassett Street, Santa Clara, California 95054. The telephone number at that location is 408-986-9888.

Q: Can I attend the Annual Meeting?

A: You are invited to attend the Annual Meeting if you were a stockholder of record or a beneficial owner as of March 28, 2017. You should bring photo identification for entrance to the Annual Meeting and proof of your holdings. The meeting will begin promptly at 3:30 p.m., Pacific daylight time.

Stock Ownership

Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A: *Stockholders of record* – If your shares are registered directly in your name with Intevac’s transfer agent, Computershare Trust Company, N.A., you are considered, with respect to those shares, the “stockholder of record.” These proxy materials have been sent directly to you by Intevac, and we will have a list of all such stockholders at the meeting site.

Beneficial owners – Many Intevac stockholders hold their shares through a broker, trustee or other nominee, rather than directly in their own name. If your shares are held in a brokerage account or by a bank or another nominee, you are considered the “beneficial owner” of shares held in “street name.” In this case the proxy materials will have been forwarded to you by your broker, trustee or nominee, who is considered, with respect to those shares, the stockholder of record.

As the beneficial owner, you have the right to direct your broker, trustee or other nominee on how to vote your shares, and if you do not do so then most of the proposals will not receive the benefit of your vote. For directions on how to vote shares beneficially held in street name, please refer to the voting instruction card provided by your broker, trustee or nominee. Since a beneficial owner is not the stockholder of record, you may not vote these shares in person at the Annual Meeting unless you obtain a “legal proxy” from the broker, trustee or nominee that holds your shares, giving you the right to vote those shares at the Annual Meeting.

Quorum and Voting

Q: How many shares must be present or represented to conduct business at the Annual Meeting?

A: The presence of the holders of a majority of the shares of Intevac's common stock, par value \$0.001 per share (the "Common Stock") entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting. Such stockholders are counted as present at the meeting if they (1) are present in person at the Annual Meeting or (2) have properly submitted a proxy.

Under the General Corporation Law of the State of Delaware, abstentions and broker "non-votes" are counted as present and entitled to vote and are, therefore, included for purposes of determining whether a quorum is present at the Annual Meeting.

A broker non-vote on a proposal occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

Q: Who is entitled to vote at the Annual Meeting?

A: Holders of record of Intevac's Common Stock at the close of business on March 28, 2017 (the "Record Date") are entitled to receive notice of and to vote their shares at the Annual Meeting. Such stockholders are entitled to cast one vote for each share of Common Stock held as of the Record Date.

At the Record Date, we had 21,403,726 shares of our Common Stock outstanding and entitled to vote at the Annual Meeting, held by 90 stockholders of record. We believe that approximately 4,513 beneficial owners hold shares through brokers, fiduciaries and nominees. No shares of Intevac's preferred stock were outstanding.

Q: What shares may I vote?

A: You may vote all of the Intevac shares owned by you as of the close of business on the Record Date. Each stockholder is entitled to one vote for each share held as of the Record Date on all matters presented at the Annual Meeting. Stockholders are not entitled to cumulate their votes in the election of directors.

Q: How many directors may I vote for?

A: Stockholders may vote for up to six nominees for director. The Board recommends that you vote "FOR" all six of the Board's nominees for director.

Q: How can I vote my shares in person at the Annual Meeting?

A: Shares held in your name as the stockholder of record may be voted in person at the Annual Meeting. Shares held beneficially in street name may be voted in person at the Annual Meeting only if you obtain a legal proxy from the broker, trustee or other nominee that holds your shares giving you the right to vote the shares. Even if you plan to attend the Annual Meeting, we recommend that you also submit your proxy card or voting instructions as described below, so that your vote will be counted if you later decide not to attend the meeting.

Q: How can I vote my shares without attending the Annual Meeting?

A: Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the Annual Meeting. If you are a stockholder of record, you may vote by submitting a proxy. If you hold shares beneficially in street name, you may vote by submitting voting instructions to your broker, trustee or nominee. For instructions on how to vote, please refer to the instructions below and those included on your proxy card or, for shares held beneficially in street name, the voting instructions provided to you by your broker, trustee or nominee.

By mail – Stockholders of record of Intevac Common Stock may submit proxies by completing, signing and dating their proxy cards and mailing them in the accompanying pre-addressed envelopes. Proxy cards submitted by mail must be received by the time of the meeting in order for your shares to be voted. Intevac stockholders who hold shares beneficially in street name may vote by mail by following the voting instructions provided by their brokers, trustees or nominees and mailing them in the accompanying pre-addressed envelopes.

By Internet – Stockholders of record of Intevac Common Stock with Internet access may submit proxies by following the “Vote by Internet” instructions on their proxy cards until 11:59 p.m., Eastern daylight time, on Tuesday May 16, 2017. Most Intevac stockholders who hold shares beneficially in street name may vote by accessing the website specified in the voting instructions provided by their brokers, trustees or nominees. Please check the voting instructions for Internet voting availability.

By telephone – Stockholders of record of Intevac Common Stock who live in the United States, Puerto Rico or Canada may submit proxies by following the “Vote by Phone” instructions on their proxy cards until 11:59 p.m., Eastern daylight time, on Tuesday May 16, 2017. Most Intevac stockholders who hold shares beneficially in street name may vote by phone by calling the number specified in the voting instructions provided by their brokers, trustees or nominees. Please check the voting instructions for telephone voting availability.

Q: What proposals will be voted on at the Annual Meeting?

A: At the Annual Meeting, stockholders will be asked to vote on:

- (1) The election of six directors to serve for the ensuing year or until their respective successors are duly elected and qualified;
- (2) An amendment to the Intevac 2003 Employee Stock Purchase Plan to increase the number of shares reserved for issuance thereunder by 500,000 shares;
- (3) An amendment to the Intevac 2012 Equity Incentive Plan to increase the number of shares reserved for issuance thereunder by 1,000,000 shares and make certain other changes to the plan, and to approve the material terms of the plan;
- (4) The ratification of the appointment of BPM LLP as independent public accountants of Intevac for the fiscal year ending December 30, 2017.
- (5) The recommendation, by advisory vote, of the executive compensation of the Named Executive Officers (“NEOs”); and
- (6) The recommendation, by advisory vote, of the frequency of holding an advisory vote on executive compensation.

Q: What is the voting requirement to approve each of the proposals?

A: Election of Directors (Proposal One): Under our Bylaws and our corporate governance guidelines, each director must be elected by the affirmative vote of a majority of votes represented and voting at the Annual Meeting, or “votes cast”, in an uncontested election. This means that the number of votes cast “FOR” a director nominee must exceed the number of votes cast “AGAINST” that nominee in an uncontested election. You may vote “FOR,” “AGAINST” or “ABSTAIN” on each of the six nominees for election as director. Abstentions and, if applicable, broker non-votes, are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results and will not affect the outcome of the election. The Board will nominate for election or reelection only those candidates who agree to tender, promptly following such candidate’s election or reelection, an irrevocable resignation effective upon (i) such candidate’s failure to receive the required vote for election at the next meeting at which they would stand for election and (ii) acceptance of such resignation by the Board. In an uncontested election, if an incumbent director does not receive a majority of votes cast “FOR” his or her election, the Nominating and Governance Committee

is then required to make a recommendation to the Board as to whether it should accept such resignation. Thereafter, the Board is required to decide whether to accept such resignation. In contested elections, the required vote would be a plurality of votes cast. Nominees elected as directors of Intevac shall serve for a term of one year or until their respective successors have been duly elected and qualified. As explained in Proposal One “Election of Directors,” Mr. Benham and Mr. Giles are not standing for reelection. The Company acknowledges with gratitude their service to the Board.

Other Proposals (Proposals Two and Three): Approval of (1) the approval of an amendment to Intevac’s 2003 Employee Stock Purchase Plan (Proposal Two) and (2) the approval of an amendment to Intevac’s 2012 Equity Incentive Plan (Proposal Three) each requires the affirmative vote of holders of a majority of the shares of Common Stock present or represented by proxy at the meeting and entitled to vote on the proposal.

Ratification of BPM LLP (Proposal Four): With respect to Proposal Four, stockholder ratification of the selection of BPM LLP as Intevac’s independent public accountants is not required by our Bylaws or other applicable legal requirements. However, the Board is submitting the selection of BPM LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent accounting firm at any time during the year, if it determines that such a change would be in the best interests of Intevac and its stockholders.

Advisory Vote on Executive Compensation (Proposal Five) – The affirmative vote of a majority of votes cast is required to recommend, by advisory vote, the executive compensation of the NEOs. You may vote “FOR,” “AGAINST” or “ABSTAIN” on this proposal. **Abstentions are deemed to be votes cast and have the same effect as a vote against this proposal.** However, broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal. Because your vote is advisory, it will not be binding on us or the Board. However, the Board will review the voting results and take them into consideration when making future decisions regarding executive compensation.

Advisory Vote on Frequency of Advisory Vote on Executive Compensation (Proposal Six) – The frequency of the advisory vote on compensation of our NEOs – every year, every two years or every three years – receiving the highest number of votes at the Annual Meeting will be the frequency approved by the stockholders. Proxy cards marked “abstain” and broker non-votes will have no effect on the outcome of the vote. Because your vote is advisory, it will not be binding on us or the Board. However, the Board will review the voting results and take them into consideration when making future decisions regarding the frequency of the advisory vote on executive compensation.

Q: What effect do withhold votes, abstentions and broker non-votes have on the proposals?

A: The broker or other nominee will be entitled to vote shares held for a beneficial owner on the ratification of the appointment of BPM LLP as Intevac’s independent auditor for Fiscal 2017 without instructions from the beneficial owner of those shares. A broker or other nominee will not be entitled to vote shares held for a beneficial owner on non-routine proposals, which include the election of directors (Proposal One), the approval of an amendment to Intevac’s 2003 Employee Stock Purchase Plan (Proposal Two), the approval of an amendment to Intevac’s 2012 Equity Incentive Plan (Proposal Three), in the recommendation on executive compensation (Proposal Five), and in the recommendation on frequency on an advisory vote on executive compensation (Proposal Six). Consequently, if you do not submit any voting instructions to your broker or other nominee, your broker or other nominee may exercise its discretion to vote your shares on Proposal Four to ratify the appointment of BPM LLP. If your shares are voted on Proposal Four as directed by your broker or other nominee, your shares will constitute “broker non-votes” on each of the non-routine proposals and will not be counted in determining the number of shares necessary for approval of the non-routine proposals. If you are a beneficial owner and want your vote to count on the non-routine proposals, it is critical that you instruct your broker or other nominee how to vote your shares.

Q: How does the Board recommend that I vote?

A: The Board unanimously recommends that you vote your shares:

- “FOR” the election of all of the nominees as director listed in Proposal One;
- “FOR” the adoption of the amendment to add an additional 500,000 shares to the Intevac 2003 Employee Stock Purchase Plan;
- “FOR” the adoption of the amendment to add an additional 1,000,000 shares to the Intevac 2012 Equity Incentive Plan and make certain other changes to the plan, and to approve the material terms of the plan;
- “FOR” the proposal to ratify the selection of BPM LLP as Intevac’s independent public accountants for the fiscal year ending December 30, 2017;
- “FOR” the approval of the compensation of the Company’s named executive officers; and
- “FOR” the recommendation of holding an advisory vote on executive compensation every 3 years.

Q: If I sign a proxy, how will it be voted?

A: All shares entitled to vote and represented by properly executed proxy cards received prior to the applicable deadlines described above (and not revoked) will be voted at the Annual Meeting in accordance with the instructions indicated on those proxy cards. Assuming there is no contested election and if no instructions are indicated on a properly executed proxy card, the shares represented by that proxy card will be voted as recommended by the Board.

Q: What happens if additional matters are presented at the Annual Meeting?

A: If any other matters are properly presented for consideration at the Annual Meeting, including, among other things, consideration of a motion to adjourn the Annual Meeting to another time or place (including, without limitation, for the purpose of soliciting additional proxies), the persons named in the enclosed proxy card and acting thereunder will have discretion to vote on those matters in accordance with their best judgment. Intevac does not currently anticipate that any other matters will be raised at the Annual Meeting.

Q: Can I change or revoke my vote?

A: Subject to any rules and deadlines your broker, trustee or nominee may have, you may change your proxy instructions at any time before your proxy is voted at the Annual Meeting.

If you are a stockholder of record, you may change your vote by (1) filing with Intevac’s Secretary, prior to your shares being voted at the Annual Meeting, a written notice of revocation or a duly executed proxy card, in either case dated later than the prior proxy card relating to the same shares, or (2) attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not, by itself, revoke a proxy). A stockholder of record that has voted on the Internet or by telephone may also change his or her vote by making a timely and valid later Internet or telephone vote.

If you are a beneficial owner of shares held in street name, you may change your vote (1) by submitting new voting instructions to your broker, trustee or other nominee or (2) if you have obtained a legal proxy from the broker, trustee or other nominee that holds your shares giving you the right to vote the shares, by attending the Annual Meeting and voting in person.

Any written notice of revocation or subsequent proxy card must be received by Intevac’s Secretary prior to the taking of the vote at the Annual Meeting. Such written notice of revocation or subsequent proxy card should be hand delivered to Intevac’s Secretary or should be sent so as to be delivered to Intevac’s principal executive offices in a timely fashion, Attention: Secretary.

Q: Who will bear the cost of soliciting votes for the Annual Meeting?

A: Intevac will bear all expenses of this solicitation, including the cost of preparing and mailing these proxy materials. Intevac may reimburse brokerage firms, custodians, nominees, fiduciaries and other persons representing beneficial owners of Common Stock for their reasonable expenses in forwarding solicitation material to such beneficial owners. Directors, officers and employees of Intevac may also solicit proxies in person or by other means of communication. Such directors, officers and employees will not be additionally compensated but may be reimbursed for reasonable out-of-pocket expenses in connection with such solicitation. Intevac may engage the services of a professional proxy solicitation firm to aid in the solicitation of proxies from certain brokers, bank nominees and other institutional owners. Our costs for such services, if retained, will not be significant.

Q: How do I attend the Annual Meeting?

A: Attendance at the Annual meeting will be limited to stockholders and the Company's invited guests. Each stockholder may be asked to present a valid picture identification, such as a driver's license or passport. Stockholders holding shares of Common Stock in brokerage accounts or through a bank or other nominee may be required to show a brokerage statement or account statement reflecting stock ownership. Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting. You may contact the Company at 1-408-986-9888 for directions to the Annual Meeting.

If you are a stockholder of record as of the Record Date, you may vote your shares of Common Stock in person by ballot at the Annual Meeting. If you hold your shares of Common Stock through a bank or broker, you will not be able to vote in person by ballot at the Annual Meeting unless you have previously requested and obtained a "legal proxy" from you bank or broker and present it at the Annual Meeting.

Q: Where can I find the voting results of the Annual Meeting?

A: We intend to announce preliminary voting results at the Annual Meeting and will publish final results in a Form 8-K within four business days after the Annual Meeting.

Stockholder Proposals and Director Nominations

Q: What is the deadline to propose actions for consideration at next year's Annual Meeting of stockholders or to nominate individuals to serve as directors?

A: You may submit proposals, including director nominations, for consideration at future stockholder meetings.

Requirements for stockholder proposals to be considered for inclusion in Intevac's proxy materials — Stockholders may present proper proposals for inclusion in Intevac's proxy statement and for consideration at the next annual meeting of its stockholders by submitting their proposals in writing to Intevac's Secretary in a timely manner. Assuming a mailing date of April 12, 2017 for this proxy statement, in order to be included in the proxy statement for the 2018 annual meeting of stockholders, stockholder proposals must be received by Intevac's Secretary no later than December 13, 2017, and must otherwise comply with the requirements of Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Requirements for stockholder proposals to be brought before an annual meeting — In addition, Intevac's bylaws establish an advance notice procedure for stockholders who wish to present certain matters before an annual meeting of stockholders. In general, nominations for the election of directors may be made by (1) the Board, (2) the Nominating and Governance Committee or (3) any stockholder entitled to vote who has delivered written notice to Intevac's Secretary no later than the Notice Deadline (as defined below), which notice must contain specified information concerning the nominees and concerning the stockholder proposing such nominations.

Intevac's bylaws also provide that the only business that may be conducted at an annual meeting is business that is (1) specified in the notice of meeting given by or at the direction of the Board, (2) properly brought before the meeting by or at the direction of the Board or (3) properly brought before the meeting by a stockholder who has delivered written notice to the Secretary of Intevac no later than the Notice Deadline (as defined below).

The "Notice Deadline" is defined as that date which is 120 days prior to the one year anniversary of the date on which Intevac first mailed its proxy materials to stockholders for the previous year's annual meeting of stockholders. As a result, assuming a mailing date of April 12, 2017, for this proxy statement the Notice Deadline for the 2018 annual meeting of stockholders is December 13, 2017.

If a stockholder who has notified Intevac of his or her intention to present a proposal at an annual meeting does not appear to present his or her proposal at such meeting, Intevac need not present the proposal for a vote at such meeting.

Q: How may I obtain a copy of the bylaw provisions regarding stockholder proposals and director nominations?

A: A copy of the full text of the bylaw provisions discussed above may be obtained by writing to the Secretary of Intevac. All notices of proposals by stockholders, whether or not to be included in Intevac's proxy materials, should be sent to Intevac's principal executive offices, Attention: Secretary.

Additional Information about the Proxy Materials

Q: What should I do if I receive more than one set of proxy materials?

A: You may receive more than one set of proxy materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each Intevac proxy card or voting instruction card that you receive to ensure that all your shares are voted.

Q: How may I obtain a separate set of proxy materials or the 2016 Annual Report?

A: If you share an address with another stockholder, each stockholder may not receive a separate copy of the proxy materials and 2016 Annual Report.

Stockholders who do not receive a separate copy of the proxy materials and 2016 Annual Report may request to receive a separate copy of the proxy materials and 2016 Annual Report by calling 408-986-9888 or by writing to Investor Relations at Intevac's principal executive offices. Alternatively, stockholders who share an address and receive multiple copies of our proxy materials and 2016 Annual Report can request to receive a single copy by following the instructions above, although each stockholder of record or beneficial owner must still submit a separate proxy card.

Q: What is the mailing address for Intevac's principal executive offices?

A: Intevac's principal executive offices are located at 3560 Bassett Street, Santa Clara, California 95054.

Any written requests for additional information, additional copies of the proxy materials and 2016 Annual Report, notices of stockholder proposals, recommendations of candidates to the Board, communications to the Board or any other communications should be sent to this address.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDERS' MEETING TO BE HELD ON MAY 17, 2017.

The proxy statement and the 2016 Annual Report are available at www.intevac.com.

PROPOSAL ONE

ELECTION OF DIRECTORS

At the Annual Meeting, six directors (constituting the entire board) are to be elected to serve until the next Annual Meeting of Stockholders and until a successor for any such director is elected and qualified, or until the death, resignation or removal of such director.

It is intended that the proxies will be voted for the six nominees named below unless authority to vote for any such nominee is withheld. The six nominees are currently directors of Intevac. Each of the nominees was elected to the Board by the stockholders at the last annual meeting. Each person nominated for election has agreed to serve if elected, and the Board has no reason to believe that any nominee will be unavailable or will decline to serve. In the event, however, that any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any other person who is designated by the current Board to fill the vacancy. The proxies solicited by this Proxy Statement may not be voted for more than six nominees.

Majority Voting Standard

Under Intevac's Bylaws, in order to be elected, a nominee must receive the votes of a majority of the votes cast with respect to such nominee in uncontested elections (which is the case for the election of directors at the 2017 Annual Meeting), which means the number of votes "for" a nominee must exceed the number of votes "against" that nominee. Abstentions are not counted as votes cast. If an incumbent director receives more "against" than "for" votes, he or she is expected to tender his or her resignation in accordance with our corporate governance guidelines.

In accordance with our Bylaws and our corporate governance guidelines, the Board will nominate for election or reelection only those candidates who agree to tender, promptly following such candidate's election or reelection, an irrevocable resignation effective upon (i) such candidate's failure to receive the required vote for election at the next meeting at which they would stand for election and (ii) acceptance of such resignation by the Board. In addition, the Board will fill director vacancies and new directorships only with candidates who agree to tender the same form of resignation promptly following their election to the Board.

If an incumbent director fails to receive the required vote for reelection, then the Nominating and Governance Committee will consider the offer of resignation and recommend to the Board the action to be taken, and the Board will publicly disclose its decision as to whether to accept or reject the offered resignation.

Any director whose resignation is under consideration shall abstain from participating in any decision of the Nominating and Governance Committee or the Board itself regarding that resignation.

Nominees

Set forth below is information regarding the nominees to the Board. As of our Record Date the Board of Directors has 8 directors. James D. Benham and Marc T. Giles are not standing for reelection. The Company acknowledges with gratitude their service on the Board.

<u>Name of Nominee</u>	<u>Position(s) with Intevac</u>	<u>Age</u>
Norman H. Pond	Chairman of the Board	78
Wendell T. Blonigan	President and Chief Executive Officer ("CEO")	55
Matthew A. Drapkin	Director	44
David S. Dury	Director	68
Thomas M. Rohrs	Director	66
John F. Schaefer	Director	74

The Board of Directors unanimously recommends a vote “FOR” all the nominees listed above.

Business Experience and Qualifications of Nominees for Election as Directors

Each nominee brings a strong and unique background and set of skills to the Board, giving the Board as a whole competence and experience in a wide variety of areas, including corporate governance and board service, executive management, financial management and operations. Set forth below are the conclusions reached by the Board with regard to each of its directors.

As described elsewhere in this proxy under the heading “Policy Regarding Board Nominees”, the Company believes that Board members should possess a balance of knowledge, experience and capability, and considers the following issues: the current size and composition of the Board and the needs of the Board and the respective committees of the Board, such factors as issues of character, judgment, diversity, age, expertise, business experience, length of service, independence, other commitments and the like, the relevance of the candidate’s skills and experience to the business, and such other factors as the Nominating and Governance Committee may consider appropriate. In addition to fulfilling the above criteria, 4 of the 6 directors named above are considered independent under the applicable Nasdaq rules.

Mr. Pond is a founder of Intevac and has served as Chairman of the Board since February 1991. Mr. Pond served as CEO from November 2012 until July 2013. Mr. Pond also served as President and CEO from September 2001 through January 2002 and from February 1991 until July 2000. Prior to founding Intevac, Mr. Pond served as the President of Varian Associates and previously was a Group Executive at Teledyne. Mr. Pond previously served on the boards of Varian Associates and Ebara Technology. Mr. Pond holds a BS in physics from the Missouri Institute of Science and Technology and an MS in physics from the University of California at Los Angeles. The Board believes Mr. Pond’s qualifications to sit on our Board include his years of experience in the hard disk drive, semiconductor, communication and defense industries, including as our Chairman for 25 years and as our President and CEO for 11 years and prior executive management experience.

Mr. Blonigan joined Intevac in July 2013 as President and CEO and has served as a director of Intevac since August 2013. Prior to joining Intevac, Mr. Blonigan co-founded Orbotech LT Solar in 2009 and served as the company’s CEO until 2013. From 2006 until 2009, he was the Chief Operating Officer at Photon Dynamics. In 1991, Mr. Blonigan joined Applied Materials’ AKT display subsidiary. During his tenure at AKT, he held various positions. In 2003, he was appointed President and served in this role until 2006; from 1999 through 2003 he was Vice President, and prior to that time he was Director of Engineering and New Product Development. Mr. Blonigan holds a BS in electronic engineering technology from DeVry University Missouri Institute of Technology. The Board believes Mr. Blonigan’s qualifications to sit on our Board include his years of executive experience for a large multinational company in the high technology display and solar industries, including as our CEO, his strong leadership abilities, management skills and technical expertise.

Mr. Drapkin was appointed as a director of Intevac in December 2013. Mr. Drapkin is a founding partner of Northern Right Capital Management, a Connecticut-based investment firm. Before joining Northern Right Capital Management in December 2009, Mr. Drapkin served as head of research, special situations, and private equity at ENSO Capital, a New York-based hedge fund. From 2003 to 2008, Mr. Drapkin worked at MacAndrews & Forbes, participating in more than \$3 billion of transactions, including Scientific Games, Deluxe Entertainment Services, AM General, and Scantron. Prior to MacAndrews, Mr. Drapkin served as general manager of two of Conde Nast publication’s wholly-owned Internet sites, Epicurious.com and Concierge.com, and headed Conde Nast’s internet venture investment effort. Mr. Drapkin started his career at Goldman, Sachs and Co. He received an AB from Princeton University in 1994 and a JD/MBA from Columbia University in 1998. Mr. Drapkin serves on the Board of PRGX Global. Mr. Drapkin previously served on the Boards of XURA (formerly known as Comverse), Ruby Tuesday (Chairman), Plato Learning, Alloy, Glu Mobile, and Hot Topic (Lead Independent Director). The Board believes Mr. Drapkin’s qualifications to sit on our Board include his

executive experience through management of a small-cap investment fund and his extensive financial experience in both public and private companies. His background and insights provide our Board with valuable expertise in corporate finance, strategic planning, and capital and credit markets.

Mr. Dury has served as a director of Intevac since July 2002. Mr. Dury served as a co-founder of Mentor Capital Group, a venture capital firm from July 2000 until his retirement in May 2009. From 1996 to 2000, Mr. Dury served as Senior Vice President and Chief Financial Officer of Aspect Development, a software development firm. Mr. Dury holds a BA in psychology from Duke University and an MBA from Cornell University. The Board believes Mr. Dury's qualifications to sit on our Board include his executive experience as a partner in a venture capital firm, his experience with financial accounting matters as a previous CFO, as well as his operational, management and corporate governance expertise working on other companies' boards of directors.

Mr. Rohrs was appointed as a director of Intevac in October 2010. Mr. Rohrs has held executive positions at leading Silicon Valley technology companies. Mr. Rohrs currently serves as the CEO of Ichor Systems. Mr. Rohrs was the CEO of Skyline Solar from 2010 through 2013, the CEO of Electroglas from 2006 through 2009, Senior Vice President of Global Operations for Applied Materials from 1997 through 2002 and Vice President of Worldwide Operations for Silicon Graphics from 1992 through 1997. Mr. Rohrs currently serves as Chairman of the Board of Ichor Systems and Vignani Technologies and as a member of the Board of Directors of Advanced Energy and was a director of Magma Design Automation from 2003 to 2012. He received an MBA from Harvard Business School and a BS in mechanical engineering from the University of Notre Dame. The Board believes Mr. Rohrs' qualifications to sit on our Board include his experience as a CEO of a solar photovoltaic manufacturing company, his operational, management and corporate governance expertise working on other companies' boards of directors and his years of experience in the semiconductor and electronics industries.

Mr. Schaefer was appointed as a director of Intevac in July 2010. Mr. Schaefer served as the Chairman and CEO of Phase Metrics from 1994 through 2001, President, Chief Operating Officer and Director of McGaw from 1992 to 1994, President, CEO and Director of Levolor Corporation from 1989 to 1992, and Corporate Officer and Director of Baker Hughes Incorporated from 1974 to 1988. Mr. Schaefer also served as a Staff Assistant to the President of the United States between 1971 and 1974. Mr. Schaefer served on the Board of Directors of Websense from 2001 to 2013. He received a BS in engineering from the United States Naval Academy and an MBA from Harvard Business School. The Board believes Mr. Schaefer's qualifications to sit on our Board include his experience as a CEO of a manufacturing company, his operational, management and corporate governance expertise working on other companies' boards of directors and his years of experience in the hard disk drive and oil and gas capital equipment industries.

PROPOSAL TWO

APPROVAL OF AN AMENDMENT TO THE INTEVAC 2003 EMPLOYEE STOCK PURCHASE PLAN TO INCREASE THE NUMBER OF SHARES RESERVED THEREUNDER BY 500,000 SHARES

The Intevac 2003 Employee Stock Purchase Plan (the “2003 ESPP”) was originally adopted by our Board and approved by our stockholders in 2003, and was last approved by our stockholders in 2016. Employees have participated in the 2003 ESPP or its predecessor plan, the 1995 Employee Stock Purchase Plan, since 1995. We are asking our stockholders to approve an amendment to the 2003 ESPP to increase the number of shares of our Common Stock that may be issued under the 2003 ESPP by 500,000 shares. We expect that this increase to the number of shares available for issuance under 2003 ESPP to be sufficient to meet the plan’s needs for at least another year.

The 2003 ESPP provides us an important incentive tool for our employees and helps us to attract, retain and motivate our employees whose skills and performance are critical to our success. We strongly believe that the 2003 ESPP is essential for us to compete for talent in the labor markets in which we operate and our Board has determined that it is in our best interests and the best interests of our stockholders to make additional 500,000 shares of our Common Stock available for purchase under the 2003 ESPP. As such, the Board has put forth for approval of our stockholders an amendment to the 2003 ESPP to increase the number of shares reserved thereunder by 500,000 shares of our Common Stock. If our stockholders approve this Proposal Two, the aggregate number of shares available for issuance under the 2003 ESPP since its inception will be 4,058,000, and the total number of shares of Common Stock that remain available to be issued in the future under such plan will be approximately 546,000 shares. The requested increase represents approximately 2.3% of the outstanding shares of our Common Stock as of March 31, 2017, and the total number of shares available for issuance under the 2003 ESPP would be approximately 2.6% of the outstanding shares of our Common Stock as of March 31, 2017.

The Board of Directors unanimously recommends a vote “FOR” the amendment to the 2003 Employee Stock Purchase Plan to increase the number of shares of Common Stock reserved for issuance thereunder by 500,000 shares.

Summary of the 2003 Employee Stock Purchase Plan

The following paragraphs provide a summary of the principal features of the 2003 ESPP and its operation. The following summary is qualified in its entirety by reference to the 2003 ESPP as set forth in Appendix A.

General

The 2003 ESPP was originally adopted by our Board in January 2003 and approved by our stockholders in May 2003. The purpose of the 2003 ESPP is to provide employees with an opportunity to purchase our Common Stock through payroll deductions.

Administration

Our Board or a committee appointed by the Board administers the 2003 ESPP. All questions of construction, interpretation or application of the 2003 ESPP are determined by the Board or the committee, and its decisions are final, conclusive and binding upon all participants.

Eligibility

Each of our employees, or the employees of our designated subsidiaries, whose customary employment is for at least twenty (20) hours per week and more than five (5) months per calendar year is eligible to participate in the 2003 ESPP; except that no employee may be granted a purchase right under the 2003 ESPP (i) to the extent

that, immediately after the grant, such employee (or any person whose stock would be attributable to such employee) would own our stock or the stock of our parent corporation or any of our subsidiaries and/or hold outstanding options to purchase stock possessing 5% or more of the total voting power or total value of all classes of our stock or our parent corporation or any of our subsidiaries, or (ii) to the extent that his or her rights to purchase stock under all of our employee stock purchase plans or those of our parent corporation or any of our subsidiaries accrues at a rate which exceeds \$25,000 worth of stock (determined at the fair market value of the shares at the time such purchase right is granted) for each calendar year in which such purchase right is outstanding. As of March 31, 2017, approximately 245 employees were eligible to participate in the 2003 ESPP. Eligible employees have the opportunity to elect to participate in the 2003 ESPP approximately twice per year.

Offering Period

Shares of our Common Stock are offered for purchase under the 2003 ESPP through a series of successive offering periods, each with a maximum duration of approximately twenty-four (24) months. Each offering period is of a duration determined by the plan administrator prior to the start date and is comprised of a series of one or more successive purchase intervals. Purchase intervals within each offering period last approximately six (6) months and run from the first trading day in February to the last trading day in July each year and from the first trading day in August each year to the last trading day in January of the following year. Should the fair market value of our Common Stock on any semi-annual purchase date within an offering period be less than the fair market value per share on the start date of that offering period, then that offering period automatically terminates immediately after the purchase of shares on such purchase date, and a new offering period commences on the next trading day following the purchase date. The plan administrator may shorten the duration of such new offering period within five (5) business days following the start date of such new offering period.

Purchase Price

The purchase price of our Common Stock acquired under the 2003 ESPP is equal to 85% of the lower of (i) the fair market value per share of our Common Stock on the first day of the offering period or on the participant's entry date into the offering period or (ii) the fair market value on the semi-annual purchase date. The fair market value of our Common Stock on any relevant date will be the closing sales price per share as reported on the Nasdaq National Market (or the closing bid, if no sales were reported), or the mean of the closing bid and asked prices if our Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, as quoted on such exchange or reported in the Wall Street Journal or such other source as the plan administrator deems reliable.

Payment of Purchase Price; Payroll Deductions

Each participant's purchase price of the shares is accumulated by payroll deductions throughout each purchase interval. A participant may elect to have up to 15% of his or her eligible compensation deducted each payroll period. The number of shares of our Common Stock a participant may purchase in each purchase interval during an offering period is determined by dividing the total amount of payroll deductions withheld from the participant's compensation during that purchase interval by the purchase price; provided, however, that a participant may not purchase more than 2,500 shares each purchase interval.

Withdrawal

Generally, a participant may withdraw from an offering period at any time by written notice without affecting his or her eligibility to participate in future offering periods. However, once a participant withdraws from a particular offering period, that participant may not participate again in the same purchase interval and, unless he or she re-enters the 2003 ESPP at a semi-annual entry date in accordance with the terms of the 2003 ESPP, may not participate in the same offering period. To participate again in the 2003 ESPP, the participant must deliver to us a new subscription agreement in accordance with the terms of the 2003 ESPP.

Termination of Employment

Upon termination of a participant's employment for any reason, including disability or death, his or her participation in the 2003 ESPP will immediately cease. The payroll deductions credited to the participant's account, but not used to make a purchase will be returned to him or her or, in the case of death, to the person or persons entitled thereto as provided pursuant to the 2003 ESPP.

Adjustments; Merger or Change in Control

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 Common Stock or other securities of the Company or other change in our capital structure, such that an adjustment is determined by the plan administrator (in its sole discretion) to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the 2003 ESPP, adjustments will be made, in the manner the plan administrator deems equitable, in the number and class of shares available for purchase under the 2003 ESPP (including per person purchase interval limitations) and the purchase price and number of shares covered by each purchase right under the 2003 ESPP .

In the event of the Company's proposed dissolution or liquidation, the offering period then in progress shall be shortened by setting a new purchase date before the dissolution or liquidation. The plan administrator shall notify each participant of the new purchase date at least ten (10) business days prior to such date, and the participant's purchase right shall be exercised on such new purchase date, unless the participant withdraws prior to such date. In the event of any merger of the Company with or into another corporation or "change of control," as defined in the 2003 ESPP, the successor corporation or a parent or subsidiary of such successor corporation shall assume or substitute an equivalent purchase right for each outstanding purchase right. In the event the successor corporation refuses to do so, the purchase interval then in progress shall be shortened by setting a new purchase date before the merger or change of control, and the current purchase interval and offering period shall end on the new purchase date. The plan administrator shall notify each participant of the new purchase date at least ten (10) business days prior to such date, and the participant's purchase right shall be exercised on such new purchase date, unless the participant withdraws prior to such date.

Certain Federal Income Tax Information

The following brief summary of the effect of U.S. federal income taxation upon the participant and Intevac with respect to the shares purchased under the 2003 ESPP does not purport to be complete, and does not discuss the tax consequences of a participant's death or the income tax laws of any state or foreign country in which the participant may reside.

The 2003 ESPP, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of Sections 421 and 423 of the Internal Revenue Code. Under these provisions, no income will be taxable to a participant until the shares purchased under the 2003 ESPP are sold or otherwise disposed of. Upon the sale or other disposition of the shares, the participant will generally be subject to tax in an amount that depends upon the holding period. If the shares are sold or otherwise disposed of more than (i) two (2) years from the first day of the applicable offering period (or, if later, from the first day the participant entered the offering period) and (ii) one (1) year from the applicable date of purchase, the participant will recognize ordinary income measured as the lesser of (a) the excess of the fair market value of the shares at the time of such sale or disposition over the purchase price, or (b) an amount equal to 15% of the fair market value of the shares as of the first day the participant entered the applicable offering period. Any additional gain will be treated as long-term capital gain. If the shares are sold or otherwise disposed of before the expiration of these holding periods, the participant will recognize ordinary income generally measured as the excess of the fair market value of the shares on the date the shares were purchased over the purchase price. Any additional gain or loss on such sale or

disposition will be long-term or short-term capital gain or loss, depending on how long the shares have been held from the date of purchase. In addition, a participant's annual "net investment income", as defined in Section 1411 of the Internal Revenue Code, may be subject to a 3.8% federal surtax. Net investment income may include capital gain and/or loss arising from the disposition of shares purchased under the 2003 ESPP. Whether a participant's net investment income will be subject to this surtax will depend on the participant's level of annual income and other factors.

Intevac generally is not entitled to a deduction for amounts taxed as ordinary income or capital gain to a participant, except to the extent of ordinary income recognized by participants upon a sale or disposition of shares prior to the expiration of the holding periods described above.

Amendment and Termination of the Plan

Our Board or the committee administering the 2003 ESPP may at any time terminate or amend the 2003 ESPP. No amendment shall be effective unless it is approved by the stockholders, if such amendment would require stockholder approval in order to comply with Section 423 of the Internal Revenue Code or other applicable law or stock exchange rule.

Purchase Plan Transactions for Certain Individuals and Groups

Given that the number of shares that may be purchased under the 2003 ESPP is determined, in part, by our Common Stock's value on the enrollment date of each participant and the last day of the purchase interval and given that participation in the 2003 ESPP is voluntary on the part of employees, the actual number of shares that may be purchased by an individual under the 2003 ESPP is not determinable.

The table below shows, as to each of Intevac's NEOs included in the 2016 Summary Compensation Table and the various indicated groups, the number of shares of Common Stock purchased under the 2003 ESPP during the last fiscal year, together with the weighted average purchase price paid per share.

<u>Name and Position or Group</u>	<u>Number of Purchased Shares</u>	<u>Weighted Average Purchase Price</u>
Wendell Blonigan, President and CEO	—	N/A
James Moniz, Executive Vice President and Chief Financial Officer	5,000	\$3.78
Andres Brugal, Executive Vice President and General Manager, Photonics	5,000	\$3.78
Jay Cho, Executive Vice President and General Manager, Thin Film Equipment	3,838	\$3.78
Christopher Smith, Vice President Business Development	2,171	\$3.80
Non-employee directors, as a group	—	N/A
All executive officers, as a group	16,009	\$3.78
All employees who are not executive officers, as a group	368,277	\$3.78

Required Vote

The affirmative vote of the holders of a majority of the shares represented and voting at the Annual Meeting (provided that that vote also constitutes the affirmative vote of a majority of the required quorum) will be required for approval of the amendment to add additional 500,000 shares of Common Stock to the 2003 ESPP.

Summary

We believe strongly that approval of the amendment to the 2003 ESPP is essential to our continued success. Awards such as those provided under the 2003 ESPP constitute an important incentive for our employees and help us to attract, retain and motivate people whose skills and performance are critical to our success. Our employees are our most valuable assets. We strongly believe that the 2003 ESPP is essential for us to compete for talent in the labor markets in which we operate.

PROPOSAL THREE

APPROVAL OF AN AMENDMENT TO THE INTEVAC 2012 EQUITY INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES RESERVED FOR ISSUANCE THEREUNDER BY 1,000,000, MAKE CERTAIN OTHER CHANGES TO THE PLAN AND APPROVE THE MATERIAL TERMS OF THE PLAN

The 2012 Equity Incentive Plan (the “Plan”) was originally adopted by our Board and approved by our stockholders in 2012 and was last approved by our stockholders in 2016. We are asking our stockholders to approve the amended Plan to increase the number of shares of our Common Stock by 1,000,000 shares, to make the additional changes to the Plan described below, and to approve the material terms of the amended Plan so that we can continue to use it to achieve our goals.

We have historically provided stock options, restricted stock units and other types of equity awards as an incentive to our employees, directors and consultants to promote increased stockholder value. The Board of Directors and management believe that stock options, restricted stock units and other types of equity awards are one of the primary ways to attract and retain key personnel responsible for the continued development and growth of our business, and to motivate all employees to increase stockholder value. In addition, stock options, restricted stock units and other types of equity awards are considered a competitive necessity in the high technology sector in which we compete.

If stockholders approve the amended Plan, the amended Plan will replace the current version of the Plan and will continue in effect until it terminates at the end of its term in 2022, unless terminated earlier by the Plan administrator. [If our stockholders do not approve the amended Plan, we will continue to grant equity awards under the existing Plan, as in effect prior to this amendment.

The Board believes that the Company must offer a competitive equity incentive program if it is to continue to successfully attract and retain the best possible candidates for positions of substantial responsibility within the Company. The Board expects that the Plan will be an important factor in attracting, retaining and rewarding high caliber employees who are essential to our success and in providing incentive to these individuals to promote the success of the Company.

The Board of Directors unanimously recommends that stockholders vote “FOR” the approval of the adoption of the amended 2012 Equity Incentive Plan, to add an additional 1,000,000 shares to the 2012 Equity Incentive Plan, make certain other changes to the Plan and to approve the material terms of the Plan.

Proposed Amendments

At the 2017 Annual Meeting, we are asking our stockholders to approve the amended Plan and to increase the number of shares reserved for issuance under the Plan by 1,000,000 shares. The Compensation Committee approved the proposed amended and restated Plan in February 2017, subject to stockholder approval at this 2017 Annual Meeting. The increase to the number of shares reserved under the Plan is proposed in order to give the Board and the Compensation Committee of the Board continued flexibility to grant stock options, restricted stock units and other types of equity awards.

We are also seeking stockholder approval of an increase in the maximum number of shares that can be granted to any service provider in any Company fiscal year by 25,000 shares for each type of equity award available under the Plan (other than performance units). We also have amended the Plan to provide that the Plan administrator may permit tax withholdings related to equity awards to be satisfied through the withholding of shares subject to an award, or the delivery of already-owned shares, that have a fair market value that is higher than the minimum statutory amount required to be withheld, if the Plan administrator determines doing so will not result in adverse accounting consequences to the Company. Shares so withheld will not return to the Plan to become available for future grant or sale under the Plan.

Additionally, the amended Plan provides that, subject to the adjustment provisions in the Plan, in any fiscal year of the Company, a non-employee director may not be granted equity awards covering more than 25,000 shares, increased to 40,000 shares in the fiscal year of his or her initial service as a non-employee director (excluding awards granted to him or her as a consultant or employee).

In addition, we are seeking stockholder approval of the material terms of the amended Plan for purposes of complying with Section 162(m) of the Internal Revenue Code (“Section 162(m)”), with the intent that we remain eligible to receive a federal income tax deduction for any compensation paid under the Plan that constitutes “performance-based compensation” within the meaning of Section 162(m).

Section 162(m) generally denies a corporate tax deduction for annual compensation exceeding \$1 million paid to the chief executive officer and other “covered employees” as determined under Section 162(m) and applicable guidance. However, certain types of compensation, including performance-based compensation, are generally excluded from this deductibility limit. To enable compensation in connection with stock options, stock appreciation rights and certain restricted stock grants, restricted stock units, performance shares and performance units awarded under the amended Plan to qualify as “performance-based” within the meaning of Section 162(m), the amended Plan limits the sizes of such awards and includes certain performance goals as further described below. By approving the amended Plan, the stockholders will be approving the material terms of the amended Plan, including, among other things, performance measures upon which specific performance goals applicable to certain awards would be based, limits on the numbers of shares or compensation that could be made to participants, and the other material terms of the awards described below.

The Board and management believe that granting equity awards motivates higher levels of performance, aligns the interests of employees and stockholders by giving employees the perspective of owners with equity stakes in Intevac, and provides an effective means of recognizing employee contributions to our success. The Board and management also believe that equity awards are of great value in recruiting and retaining highly qualified technical and other key personnel who are in great demand, as well as rewarding and encouraging current employees and other service providers. Finally, the Board and management believe that the ability to grant equity awards will be important to our future success by helping us to accomplish these objectives.

If the stockholders approve this proposed amendment to the Plan, we currently anticipate that the shares available under the Plan will be sufficient to meet our expected needs through at least the first fiscal quarter of 2018, inclusive of the annual equity awards typically granted in the second quarter of each fiscal year. We anticipate that we will be requesting additional shares under the Plan at our 2018 Annual Meeting of stockholders. However, future circumstances and business needs may dictate a different result. In determining the number of shares to be added to the total number of shares reserved for issuance under the Plan, the Compensation Committee and the Board also considered the following:

- *Remaining Competitive by Attracting/Retaining Talent.* As discussed above, the Compensation Committee and the Board considered the importance of an adequate pool of shares to attract, retain and reward our high-performing employees, especially since we compete with many technology companies for a limited pool of talent.
- *Historical Grant Practices.* The Compensation Committee and the Board considered the historical amounts of equity awards that we have granted in the past three years. In fiscal years 2016, 2015 and 2014 we granted equity awards representing a total of 2.8 million shares. Due to the fungible share ratio (described below), the share reserve was reduced by an additional 1.4 million shares in the past three years.
- *Forecasted Grants.* As discussed above, the Compensation Committee and the Board anticipates that the proposed 1,000,000 share increase, based on projected share utilization will be sufficient for our equity award usage through at least the first quarter of 2018. In determining the projected share utilization, the Compensation Committee and the Board considered a forecast that included the following factors:

(i) 843,762 unissued shares remaining under the Plan; (ii) the additional 1,000,000 shares that would be available for grant under the Plan, if the stockholders approve the proposed amendment to the Plan; (iii) estimated cancellations returned back to the Plan; (iv) the full value awards to be granted subject to stockholder approval of the proposed amendment to the Plan; and (v) the impact of the fungible share ratio for full value awards (that is, that awards having an exercise price less than the fair market value on the date of grant count against the share reserve under the Plan as two (2) shares for every one (1) share subject to such an award.). Based on these projections, we expect to request additional shares under the Plan at our 2018 Annual Meeting of stockholders.

- *Proxy Advisory Firm Guidelines.* Because of our significant institutional stockholder base, the Compensation Committee and the Board also considered the relevant guidelines from a proxy advisory firm. Our three-year average burn rate and the dilution relating to the proposed 1,000,000 share increase are within such guidelines.

Summary of the 2012 Equity Incentive Plan

The following is a summary of the principal features of the amended Plan and its operation. The summary is qualified in its entirety by reference to the amended Plan as set forth in Appendix B.

General

The purposes of the Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide incentives to employees, directors and consultants who perform services to the Company, and to promote the success of the Company's business. These incentives are provided through the grant of stock options, restricted stock, restricted stock units, stock appreciation rights, performance bonus awards, performance units and/or performance shares.

Authorized Shares

We are asking our stockholders to approve an increase of 1,000,000 shares of our Common Stock to the number of shares of our Common Stock reserved under the Plan. If our stockholders approve this Proposal Three, a total maximum aggregate of 4,000,000 shares plus (i) the 740,378 shares that, as of the date stockholders initially approved the Plan in 2012, were reserved but not issued pursuant to any awards under the 2004 Equity Incentive Plan (the "2004 Plan") and were not subject to any awards granted thereunder, and (ii) any shares subject to stock options or similar awards granted under the 2004 Plan and/or the Company's 1995 Stock Option/Stock Issuance Plan (the "1995 Plan") that, after the date stockholders initially approved the Plan in 2012, expire or otherwise terminate without having been exercised in full and shares issued pursuant to awards granted under the 2004 Plan and/or the 1995 Plan that, after the date stockholders initially approve the Plan, are forfeited to or repurchased by the Company, with the maximum number of shares that may be added pursuant to sections (i) and (ii) equal to 4,063,305 shares. The shares may be authorized, but unissued, or reacquired Common Stock. As of March 31, 2017, the number of shares subject to awards outstanding under the Plan, 2004 Plan and the 1995 Plan were 3,455,425 shares and the number of shares that were available for future issuance under the Plan was 843,762 shares.

Shares subject to awards granted with an exercise or purchase price less than the fair market value on the date of grant (including restricted stock, restricted stock units, performance units and performance shares) count against the share reserve as two (2) shares for every one (1) share subject to such an award. To the extent that a share that was subject to an award that counted as two (2) shares against the Plan reserve pursuant to the preceding sentence is returned to or deemed not issued from the Plan, the Plan reserve will be credited with two (2) shares that will thereafter be available for issuance under the Plan.

If any award granted under the Plan expires or becomes unexercisable without having been exercised in full, is surrendered pursuant to an exchange program or is forfeited to or repurchased by the Company due to failure

to vest, the unpurchased or forfeited or repurchased shares subject to such award will become available for future grant or sale under the Plan. With respect to the exercise of stock appreciation rights, the gross number of shares covered by the portion of the exercised award, whether or not actually issued pursuant to such exercise, will cease to be available under the Plan. If shares issued pursuant to restricted stock, restricted stock units, performance shares or performance units are repurchased by or forfeited to the Company, such shares will become available for future grant under the Plan. Shares used to pay the exercise price or purchase price of an award and/or to satisfy the tax withholding obligations of an award will not become available for future grant or sale under the Plan. Shares issued pursuant to awards transferred under any award transfer program will not again be available for grant under the Plan. Payment of cash rather than shares pursuant to an award will not result in reducing the number of shares available for issuance under the Plan.

Adjustments to Shares Subject to the Plan

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 affecting the Company's Common Stock occurs, the Administrator (as defined below), in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of shares that may be delivered under the Plan, and/or the number, class and price of shares of stock subject to outstanding awards, and the award grant limitations.

Administration

The Plan will be administered by the Board, any committee of the Board, or a committee of individuals satisfying applicable laws appointed by the Board in accordance with the terms of the Plan (the "Administrator"). In the case of transactions, including grants to certain officers and key employees of the Company, intended to qualify, as exempt under Rule 16b-3 of the Securities Exchange Act of 1934, the members of the committee must qualify as "non-employee directors" under Rule 16b-3 of the Securities Exchange Act of 1934. In the case of awards intended to qualify for the performance-based compensation exemption under Section 162(m), administration must be by a committee comprised solely of two or more "outside directors" within the meaning of Section 162(m). (For purposes of this summary of the Plan, the term "Administrator" will refer to the Board or any committee designated by the Board to administer the Plan.)

Subject to the terms of the Plan, the Administrator has the sole discretion to select the employees, consultants, and directors who will receive awards, to determine the terms and conditions of awards, to modify or amend each award (subject to the restrictions of the Plan), including to accelerate vesting or waive forfeiture restrictions, and to interpret the provisions of the Plan and outstanding awards. The Administrator may allow a participant to defer the receipt of payment of cash or delivery of shares that otherwise would be due to such participant. The Administrator may determine the terms and conditions of any award exchange program and/or award transfer program, but may only institute an award exchange program and/or award transfer program with the approval of the Company's stockholders. The Administrator may make rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws and may make all other determinations deemed necessary or advisable for administering the Plan.

Eligibility

Awards may be granted to employees, directors and consultants of the Company and employees and consultants of any parent or subsidiary corporation of the Company. Incentive stock options may be granted only to employees who, as of the time of grant, are employees of the Company or any parent or subsidiary corporation of the Company. As of March 31, 2017, approximately 284 employees, directors and consultants were eligible to participate in the Plan.

Stock Options

Each option granted under the Plan will be evidenced by a written or electronic agreement between the Company and a participant specifying the number of shares subject to the option and the other terms and conditions of the option, consistent with the requirements of the Plan.

The exercise price per share of each option may not be less than the fair market value of a share of the Company's Common Stock on the date of grant. However, any incentive stock option granted to a person who at the time of grant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company (a "Ten Percent Stockholder") must have an exercise price per share equal to at least 110% of the fair market value of a share on the date of grant. The aggregate fair market value of the shares (determined on the grant date) covered by incentive stock options which first become exercisable by any participant during any calendar year also may not exceed \$100,000. Generally, the fair market value of the Common Stock is the closing price of our stock on any established stock exchange or national market system on the applicable date.

The Plan provides that the Administrator will determine the acceptable form(s) of consideration for exercising an option. An option will be deemed exercised when the Company receives the notice of exercise and full payment for the shares to be exercised, together with applicable tax withholdings.

Options will be exercisable at such times or under such conditions as determined by the Administrator and set forth in the award agreement. The maximum term of an option will be specified in the award agreement, provided that options will have a maximum term of no more than ten (10) years, and provided further that an incentive stock option granted to a Ten Percent Stockholder must have a term not exceeding five (5) years.

The Administrator will determine and specify in each award agreement, and solely in its discretion, the period of post-termination exercise applicable to each option. In the absence of such a determination by the Administrator, the participant generally will be able to exercise his or her option for (i) three (3) months following his or her termination for reasons other than death or disability, and (ii) twelve (12) months following his or her termination due to disability or following his or her death while holding the option.

Restricted Stock Awards

Awards of restricted stock are rights to acquire or purchase shares, which vest in accordance with the terms and conditions established by the Administrator in its sole discretion. Each restricted stock award granted will be evidenced by a written or electronic agreement between the Company and the participant specifying the number of shares subject to the award and the other terms and conditions of the award, consistent with the requirements of the Plan. Restricted stock awards may be subject to vesting conditions as the Administrator specifies, and the shares acquired may not be transferred by the participant until vested. The Administrator may set restrictions based upon continued employment or service, the achievement of specific performance objectives (Company-wide, departmental, divisional, business unit or individual), applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion. Notwithstanding the foregoing, if the Administrator desires that the award qualify as performance-based compensation under Section 162(m), any restrictions will be based on a specified list of performance goals and certain other requirements (see "Performance Goals" below for more information).

Unless otherwise provided by the Administrator, a participant will forfeit any shares of restricted stock as to which the restrictions have not lapsed prior to the participant's termination of service. Unless the Administrator provides otherwise, participants holding restricted stock will have the right to vote the shares and to receive any dividends paid, except that dividends or other distributions paid in shares will be subject to the same restrictions on transferability and forfeitability as the original award. The Administrator may, in its sole discretion, reduce or waive any restrictions and may accelerate the time at which any restrictions will lapse or be removed.

Restricted Stock Units

The Administrator may grant restricted stock units which represent a right to receive shares at a future date as set forth in the participant's award agreement. Each restricted stock unit granted under the Plan will be evidenced by a written or electronic agreement between the Company and the participant specifying the number of shares subject to the award and other terms and conditions of the award, consistent with the requirements of the Plan. Restricted stock units may be settled, in the sole discretion of the Administrator, in shares, cash or a combination of both.

Restricted stock units will result in a payment to a participant only if the performance goals or other vesting criteria the Administrator may establish are achieved or the awards otherwise vest. The Administrator may set vesting criteria based upon continued employment or service, the achievement of specific performance objectives (Company-wide, departmental, divisional, business unit, or individual goals (including, but not limited to, continued employment or service)), applicable federal or state securities laws or any other basis determined by the Administrator in its discretion, which, depending on the extent to which they are met, will determine the number of restricted stock units to be paid out to participants. Notwithstanding the foregoing, if the Administrator desires that the award qualify as performance-based compensation under Section 162(m), any restrictions will be based on a specified list of performance goals and certain other requirements (see "Performance Goals" below for more information).

After the grant of a restricted stock unit award, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout and may accelerate the time at which any restrictions will lapse or be removed. A participant will forfeit any unearned restricted stock units as of the date set forth in the award agreement. The Administrator in its sole discretion may pay earned restricted stock units in cash, shares of the Company's Common Stock, or a combination of cash and shares.

Stock Appreciation Rights

A stock appreciation right gives a participant the right to receive the appreciation in the fair market value of Company Common Stock between the date of grant of the award and the date of its exercise. Each stock appreciation right granted under the Plan will be evidenced by a written or electronic agreement between the Company and the participant specifying the exercise price and the other terms and conditions of the award, consistent with the requirements of the Plan.

The exercise price per share of each stock appreciation right may not be less than the fair market value of a share on the date of grant. Upon exercise of a stock appreciation right, the holder of the award will be entitled to receive an amount determined by multiplying (i) the difference between the fair market value of a share on the date of exercise over the exercise price by (ii) the number of exercised shares. The Company may pay the appreciation in cash, in shares, or in some combination thereof. The term of a stock appreciation right will be no more than ten (10) years from the date of grant. The terms and conditions relating to the period of post-termination exercise with respect to options described above also apply to stock appreciation rights.

Performance Units and Performance Shares

Performance units and performance shares may also be granted under the Plan. Performance units and performance shares are awards that will result in a payment to a participant only if the performance goals or other vesting criteria the Administrator may establish are achieved or the awards otherwise vest. Each award of performance units or shares granted under the Plan will be evidenced by a written or electronic agreement between the Company and the participant specifying the performance period and other terms and conditions of the award, consistent with the requirements of the Plan. Earned performance units and performance shares will be paid, in the sole discretion of the Administrator, in the form of cash, shares (which will have an aggregate fair market value equal to the earned performance units or shares at the close of the applicable performance period),

or in a combination thereof. The Administrator may set vesting criteria based upon continued employment or service, the achievement of specific performance objectives (Company-wide, departmental, divisional, business unit or individuals goals (including, but not limited to, continued employment or service)), applicable federal or state securities laws, or any other basis, and which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. Notwithstanding the foregoing, if the Administrator desires that the award qualify as performance-based compensation under Section 162(m), any restrictions will be based on a specified list of performance goals and certain other requirements (see “Performance Goals” below for more information).

After the grant of a performance unit or performance share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such performance units or shares and accelerate the time at which any restrictions will lapse or be removed. Performance units will have an initial value established by the Administrator on or before the date of grant. Each performance share will have an initial value equal to the fair market value of a share on the grant date. A participant will forfeit any performance shares or units that are unearned or unvested as of the date set forth in the award agreement.

Performance Bonus Awards

Performance bonus awards may also be granted under the Plan in the form of a cash bonus payable upon the attainment of a specified list of performance goals and certain other requirements (see “Performance Goals” below for more information). The Administrator has complete discretion to determine the amount of the cash bonus that could be earned under a performance bonus award, provided that no one participant may be granted performance bonus awards that could result in the participant receiving more than \$5,000,000 in any one fiscal year of the Company.

Performance Goals

Awards of restricted stock, restricted stock units, performance shares, performance units or performance bonuses under the Plan may be made subject to the attainment of performance goals relating to one or more business criteria within the meaning of Section 162(m) and may provide for a targeted level or levels of achievement using one or more of the following measures: cost of sales as a percentage of sales, customer orders, customer satisfaction, earnings per share, financial strategic initiatives, free cash flow, manufacturing cost improvements, market development, market share, marketing and sales expenses as a percentage of sales, net income as a percentage of sales, operating margin, organizational strategic initiatives, operational improvements, product development, profit and/or profitability, quality, revenue, total shareholder return and working capital. The performance goals may differ from participant to participant and from award to award. Any criteria used may be measured (as applicable), in absolute terms, in combination with another performance goal or goals (for example, as a ratio or matrix), in relative terms (including, but not limited to, results for other periods, passage of time and/or against another company or companies or an index or indices), on a per-share basis, against the performance of the Company as a whole or a segment of the Company, and on a pre-tax or after-tax basis. Prior to the latest date by which would meet the requirements under Section 162(m), the Administrator will determine whether any elements or items shall be included in or excluded from the calculation of any performance goal with respect to any participant and whether a performance goal will be calculated in accordance with generally accepted accounting principles or another basis.

To the extent necessary to comply with the performance-based compensation provisions of Section 162(m), with respect to any award granted subject to performance goals that the Administrator intends to be “performance-based” within the meaning of Section 162(m), within the first 25% of the performance period, but in no event more than ninety (90) days following the commencement of any performance period (or such other time as may be required or permitted by Section 162(m)), the Administrator will, in writing: (i) designate one or more participants to whom an award will be made, (ii) select the performance goals applicable to the performance period, (iii) establish the performance goals, and amounts or methods of computation of the awards

which may be earned for the performance period, and (iv) specify the relationship between performance goals and the amounts or methods of computation of such awards, as applicable, to be earned by each participant for such performance period. Following the completion of each performance period, the Administrator will certify in writing whether the applicable performance goals have been achieved for such performance period. In determining the amounts earned by a participant, the Administrator may reduce or eliminate (but not increase) the amount payable at a given level of performance to take into account additional factors that the Administrator may deem relevant to the assessment of individual or corporate performance for the performance period. A participant will be eligible to receive payment pursuant to an award for a performance period only if the performance goals for such period are achieved (unless otherwise permitted by Section 162(m) and determined by the Administrator). The Administrator may in its discretion grant awards that are not intended to qualify as “performance-based compensation” under Section 162(m), including awards that are based on performance goals or other specific criteria or goals but do not satisfy the requirements of Section 162(m).

Individual Award Limitations

The Plan contains annual grant limits intended to satisfy certain Section 162(m) requirements. We are asking our stockholders to approve an increase in the maximum number of shares that can be granted to any service provider in any Company fiscal year by 25,000 shares for each type of equity award available under the Plan (other than performance units). We are not also requesting an increase to the additional number of shares that can be granted in connection with a service provider’s initial service awards; these additional limits remain the same. Specifically, the maximum number of shares and/or dollars which could be issued to any one individual in any fiscal year pursuant to the Plan, as amended, is as follows:

<u>Award Type</u>	<u>Annual Number of Shares or Dollar Value*</u>	<u>Additional Shares or Dollar Value in Connection with New Hire**</u>	<u>Maximum Number of Shares and/or Dollars</u>
Stock Option	425,000	600,000	1,025,000
Restricted Stock	275,000	350,000	625,000
Restricted Stock Units	275,000	350,000	625,000
Stock Appreciation Right	425,000	600,000	1,025,000
Performance Shares	275,000	350,000	625,000
Performance Units	Initial Value of \$1,500,000	Initial Value of \$1,500,000	\$3,000,000

* Reflects the 25,000 share limit for which stockholder approval is being sought pursuant to this proposal for each listed equity award type (other than performance units).

** Additional shares that may be granted in the Company’s fiscal year in which the individual’s service to the Company (or a parent or subsidiary corporation of the Company) first commences.

In addition, performance bonus awards may be granted, provided that no one participant may be granted performance bonus awards that could result in the participant receiving more than \$5,000,000 in any one fiscal year of the Company.

The Administrator will adjust the share limitations set forth in the above paragraph in the event of any adjustment to the Company’s shares discussed above (under “Adjustments to Shares Subject to the Plan”).

Additionally, the amended Plan provides that, subject to the adjustment provisions in the Plan, in any fiscal year of the Company, a non-employee director may not be granted equity awards covering more than 25,000 shares, increased to 40,000 shares in the fiscal year of his or her initial service as a non-employee director (excluding awards granted to him or her as a consultant or employee).

Transferability of Awards

Unless determined otherwise by the Administrator, awards granted under the Plan generally are not transferable other than by will or by the laws of descent or distribution, and all rights with respect to an award granted to a participant generally will be available during a participant's lifetime only to the participant.

Dissolution or Liquidation

In the event of the Company's proposed dissolution or liquidation, the Administrator will notify each participant as soon as practicable prior to the effective date of such proposed transaction. An award will terminate immediately prior to consummation of such proposed action to the extent the award has not been previously exercised.

Change in Control

The Plan provides that, in the event of a merger of the Company with or into another corporation or entity or a "change in control" (as defined in the Plan), each award will be treated as the Administrator determines, including that each award be assumed or substantially equivalent awards substituted by the acquiring or succeeding corporation or its affiliate. The Administrator will not be required to treat all outstanding awards the same in the transaction.

If the successor corporation does not assume or substitute for the award, the participant will fully vest in and have the right to exercise all of his or her outstanding options and stock appreciation rights, all restrictions on restricted stock and restricted stock units will lapse, and, with respect to awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels and all other terms and conditions met. In addition, if an option or stock appreciation right is not assumed or substituted for, the Administrator will notify the participant in writing or electronically that the option or stock appreciation right will be exercisable for a period of time determined by the Administrator in its sole discretion, and the option or stock appreciation right will terminate upon the expiration of such period.

With respect to awards granted to non-employee members of our Board that are assumed or substituted for, if on the date of or following such assumption or substitution, the participant's status as a non-employee member of the Board (or a director of the successor corporation) is terminated other than upon the participant's voluntary resignation (unless the resignation is at the request of the acquirer), the non-employee director will fully vest in and have the right to exercise all of his or her outstanding options and stock appreciation rights, all restrictions on restricted stock and restricted stock units will lapse, and, with respect to awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels and all other terms and conditions met.

Termination or Amendment

The Plan will automatically terminate ten (10) years from the date of its initial adoption by the Board in 2012, unless terminated at an earlier time by the Board. The Administrator may amend, alter, suspend or terminate the Plan at any time, provided that no amendment may be made without stockholder approval to the extent approval is necessary or desirable to comply with any applicable laws. No amendment, alteration, suspension or termination may impair the rights of any participant unless mutually agreed otherwise between the participant and the Administrator.

Federal Tax Aspects

The following summary is intended only as a general guide to the material U.S. federal income tax consequences of participation in the Plan. The summary is based on existing U.S. laws and regulations, and there

can be no assurance that those laws and regulations will not change in the future. The summary does not purport to be complete and does not discuss the tax consequences upon a participant's death, or the provisions of the income tax laws of any municipality, state or foreign country in which the participant may reside. As a result, tax consequences for any particular participant may vary based on individual circumstances.

Incentive Stock Options

An optionee recognizes no taxable income for regular income tax purposes as a result of the grant or exercise of an incentive stock option qualifying under Section 422 of the Code. Optionees who neither dispose of their shares within two (2) years following the date the option was granted nor within one (1) year following the exercise of the option normally will recognize a capital gain or loss equal to the difference, if any, between the sale price and the purchase price of the shares. If an optionee satisfies such holding periods upon a sale of the shares, the Company will not be entitled to any deduction for federal income tax purposes. If an optionee disposes of shares within two (2) years after the date of grant or within one (1) year after the date of exercise (a "disqualifying disposition"), the difference between the fair market value of the shares on the exercise date and the option exercise price (not to exceed the gain realized on the sale if the disposition is a transaction with respect to which a loss, if sustained, would be recognized) will be taxed as ordinary income at the time of disposition. Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. Any ordinary income recognized by the optionee upon the disqualifying disposition of the shares generally should be deductible by the Company for federal income tax purposes, except to the extent such deduction is limited by applicable provisions of the Code.

The difference between the option exercise price and the fair market value of the shares on the exercise date is treated as an adjustment in computing the optionee's alternative minimum taxable income and may be subject to an alternative minimum tax which is paid if such tax exceeds the regular tax for the year. Special rules may apply with respect to certain subsequent sales of the shares in a disqualifying disposition, certain basis adjustments for purposes of computing the alternative minimum taxable income on a subsequent sale of the shares and certain tax credits which may arise with respect to optionees subject to the alternative minimum tax.

Nonstatutory Stock Options

Options not designated or qualifying as incentive stock options will be nonstatutory stock options having no special U.S. tax status. An optionee generally recognizes no taxable income as the result of the grant of such an option. Upon exercise of a nonstatutory stock option, the optionee normally recognizes ordinary income equal to the amount that the fair market value of the shares on such date exceeds the exercise price. If the optionee is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any gain or loss, based on the difference between the sale price and the fair market value on the exercise date, will be taxed as capital gain or loss. No tax deduction is available to the Company with respect to the grant of a nonstatutory stock option or the sale of the stock acquired pursuant to such grant.

Stock Appreciation Rights

In general, no taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant generally will recognize ordinary income in an amount equal to the fair market value of any shares of our Common Stock received. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Restricted Stock Awards

A participant acquiring restricted stock generally will recognize ordinary income equal to the fair market value of the shares on the vesting date. If the participant is an employee, such ordinary income generally is

subject to withholding of income and employment taxes. The participant may elect, pursuant to Section 83(b) of the Code, to accelerate the ordinary income tax event to the date of acquisition by filing an election with the Internal Revenue Service no later than thirty (30) days after the date the shares are acquired. Upon the sale of shares acquired pursuant to a restricted stock award, any gain or loss, based on the difference between the sale price and the fair market value on the date the ordinary income tax event occurs, will be taxed as capital gain or loss.

Restricted Stock Unit Awards

There generally are no immediate tax consequences of receiving an award of restricted stock units. A participant who is awarded restricted stock units generally will be required to recognize ordinary income in an amount equal to the fair market value of shares issued to such participant at the end of the applicable vesting period or, if later, the settlement date elected by the Administrator or a participant. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Any additional gain or loss recognized upon any later disposition of any shares received would be capital gain or loss.

Performance Shares and Performance Unit Awards

A participant generally will recognize no income upon the grant of a performance share or a performance unit award. Upon the settlement of such awards, participants normally will recognize ordinary income in the year of receipt in an amount equal to the cash received and the fair market value of any cash or nonrestricted shares received. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes.

Upon the sale of any shares received, any gain or loss, based on the difference between the sale price and the fair market value on the date the ordinary income tax event occurs, will be taxed as capital gain or loss.

Section 409A

Section 409A of the Code provides certain requirements for non-qualified deferred compensation arrangements with respect to an individual's deferral and distribution elections and permissible distribution events. Awards granted under the Plan with a deferral feature will be subject to the requirements of Section 409A of the Code. If an award is subject to and fails to satisfy the requirements of Section 409A of the Code, the recipient of that award may recognize ordinary income on the amounts deferred under the award, to the extent vested, which may be prior to when the compensation is actually or constructively received. Also, if an award that is subject to Section 409A fails to comply with Section 409A's provisions, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income, as well as interest on such deferred compensation. Certain states have enacted laws similar to Section 409A which impose additional taxes, interest and penalties on non-qualified deferred compensation arrangements. The Company will also have withholding and reporting requirements with respect to such amounts.

Medicare Surtax

Beginning in 2013, a participant's annual "net investment income", as defined in Section 1411 of the Internal Revenue Code, may be subject to a 3.8% federal surtax (generally referred to as the "Medicare Surtax"). Net investment income may include capital gain and/or loss arising from the disposition of shares subject to a participant's awards under the Plan. Whether a participant's net investment income will be subject to the Medicare Surtax will depend on the participant's level of annual income and other factors.

Tax Effect for the Company

The Company generally will be entitled to a tax deduction in connection with an award under the Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonstatutory stock option). Special rules limit the deductibility of

compensation paid to our chief executive officer and other “covered employees” as determined under Section 162(m) and applicable guidance. Under Section 162(m), the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, we can preserve the deductibility of certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) are met. These conditions include stockholder approval of the amended Plan, setting limits on the number of awards that any individual may receive and for awards other than certain stock options, establishing performance criteria that must be met before the award actually will vest or be paid. The amended Plan has been designed to permit the Administrator to grant awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting us to continue to receive a federal income tax deduction in connection with such awards. However, the Administrator may in its discretion grant awards that are not intended to qualify as “performance-based compensation” under Section 162(m), including awards that are based on performance goals or other specific criteria or goals but do not satisfy the requirements of Section 162(m).

Number of Awards Granted to Employees, Consultants, and Directors

The number of awards that an employee, director or consultant may receive under the Plan is in the discretion of the Administrator and therefore cannot be determined in advance. The following table sets forth (i) the aggregate number of shares of Common Stock subject to options and restricted stock units granted under the Plan to our NEOs during the last fiscal year and (ii) the average per share exercise price of such options.

<u>Name of Individual or Group</u>	<u>Number of Options Granted</u>	<u>Weighted Average Per Share Exercise Price of Options</u>	<u>Number of Shares of Restricted Stock Units Granted</u>
Wendell Blonigan, President and CEO	75,000	\$4.80	185,559
James Moniz, Executive Vice President and Chief Financial Officer	30,000	\$4.80	34,545
Andres Brugal, Executive Vice President and General Manager, Photonics	30,000	\$4.80	29,039
Jay Cho, Executive Vice President and General Manager, Thin Film Equipment	30,000	\$4.80	52,853
Christopher Smith, Vice President Business Development	16,250	\$4.80	20,625
All executive officers, as a group	181,250	\$4.80	331,193
All directors who are not executive officers, as a group	91,000	\$4.80	—
All employees who are not executive officers, as a group	150,250	\$5.03	437,334

Required Vote

The affirmative vote of the holders of a majority of the shares represented and voting at the Annual Meeting (provided that that vote also constitutes the affirmative vote of a majority of the required quorum) will be required for approval of the addition of 1,000,000 shares to the Intevac 2012 Equity Incentive Plan.

Summary

We believe strongly that the approval of the amendment to the 2012 Equity Incentive Plan is essential to our continued success. Our employees are one of our most valuable assets. Stock options and other awards such as those provided under the 2012 Equity Incentive Plan are vital to our ability to attract and retain outstanding and highly skilled individuals. Such awards also are crucial to our ability to motivate employees to achieve the Company’s goals. For the reasons stated above, the stockholders are being asked to approve the amendment to the 2012 Equity Incentive Plan.

PROPOSAL FOUR

RATIFICATION OF INDEPENDENT PUBLIC ACCOUNTANTS

The Audit Committee of the Board has selected BPM LLP as our independent public accountants for the fiscal year ending December 30, 2017. BPM LLP began auditing our financial statements in 2015. Its representatives are expected to be present at the Annual Meeting, will have an opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

The Board of Directors unanimously recommends a vote “FOR” ratification of the selection of BPM LLP as Intevac’s independent registered public accounting firm for the fiscal year ending December 30, 2017.

Principal Accountant Fees and Services

The following table presents fees billed for professional audit services and other services rendered to us by BPM LLP for the fiscal years ended December 31, 2016 and January 2, 2016.

	BPM LLP	
	2016	2015
Audit Fees (1)	\$693,769	\$606,997
Audit-Related Fees (2)	—	—
Tax Fees (3)	—	—
All Other Fees (4)	—	—
Total Fees	\$693,769	\$606,997

- (1) Audit fees consist of fees billed for professional services rendered for the audit of our annual consolidated financial statements and review of the interim consolidated financial statements included in our Quarterly Reports on Form 10-Q and fees for services that are normally provided in connection with statutory and regulatory filings or engagements. In addition, audit fees include those fees related to the audit of the effectiveness of our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. This category also includes advice on accounting matters that arose during, or as a result of, the audit or the review of the interim consolidated financial statements. The 2016 and 2015 audit fees do not include \$40,596 and \$41,923 paid to firms other than our independent registered public accounting firm, BPM LLP, for statutory engagements.
- (2) Audit related fees consist of assurance and related services that are reasonably related to the performance of the audit of our consolidated financial statements and are not reported under “Audit Fees”. There were no services provided under this category in fiscal 2016 and fiscal 2015.
- (3) Tax fees consist of fees billed for tax compliance, consultation and planning services. There were no services provided under this category in fiscal 2016.
- (4) All other fees consist of fees for other corporate related services. There were no services provided under this category in fiscal 2016 and fiscal 2015.

In making its recommendation to ratify the appointment of BPM LLP as our independent auditor for the fiscal year ending December 30, 2017, the Audit Committee has considered whether services other than audit and audit-related services provided by BPM LLP are compatible with maintaining the independence of BPM LLP and has determined that such services are compatible.

Change in Independent Auditor

As disclosed in the Current Report on Form 8-K filed by the Company on June 16, 2015, on June 11, 2015, the Audit Committee dismissed Grant Thornton LLP, an independent registered public accounting firm, as the Company’s independent auditors for the 2015 fiscal year, and appointed BPM LLP, an independent registered public accounting firm, as the Company’s independent auditors for the 2015 fiscal year.

The reports of Grant Thornton LLP on the Company's financial statements for each of the two fiscal years ended January 3, 2015 and December 31, 2013 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. In connection with the audits of the Company's consolidated financial statements for the fiscal years ended January 3, 2015 and December 31, 2013, and in the subsequent interim period through June 11, 2015, there were no disagreements with Grant Thornton LLP on any matters of accounting principles or practices, financial statement disclosure or auditing scope and procedures which, if not resolved to the satisfaction of Grant Thornton LLP, would have caused Grant Thornton LLP to make reference to the matter in their report. There were no reportable events (as that term is described in Item 304(a)(1)(v) of Regulation S-K) during the two fiscal years ended January 3, 2015 and December 31, 2013, or in the subsequent period through June 11, 2015.

The Company furnished a copy of the above disclosures to Grant Thornton LLP and requested that Grant Thornton LLP provide a letter addressed to the Securities and Exchange Commission stating whether it agrees with the above statements. A copy of such letter is filed as Exhibit 16.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 16, 2015.

During the Company's fiscal years ended January 3, 2015 and December 31, 2013 and through June 11, 2015, the Company did not consult with BPM LLP regarding any of the matters or events described in Item 304(a)(2)(i) or (ii) of Regulation S-K.

Pre-Approval of Audit and Permissible Non-Audit Services

Our Audit Committee approves in advance all engagements with BPM LLP, including the audit of our annual financial statements, the review of the financial statements included in our Quarterly Reports on Form 10-Q and tax compliance services. Fees billed by BPM LLP are reviewed and approved by the Audit Committee on a quarterly basis.

PROPOSAL FIVE

ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Company asks that you indicate your support for its executive compensation policies and practices as described in the Company's Compensation Discussion and Analysis, accompanying tables and related narrative contained in this Proxy Statement. This proposal is commonly known as a "say-on-pay" proposal, and gives our stockholders the opportunity to express their views on the compensation of our NEOs. Your vote is advisory and so will not be binding on the Board. However, the Board will review the voting results and take them into consideration when making future decisions regarding executive compensation.

Compensation Program and Philosophy

As described in detail under the headings "Executive Compensation and Related Information" and "Compensation Discussion and Analysis," our NEO compensation program is designed to attract, retain, motivate and reward high-caliber executives who are critical to our success while maintaining strong and direct links between executive pay, individual performance, the Company's financial performance and performance for our stockholders. The Compensation Committee believes that the Company's executive compensation programs should support the Company's objective of creating value for its stockholders.

Accordingly, the Compensation Committee believes that NEOs should have a significant interest in the Company's stock performance, and compensation programs should link executive compensation to stockholder value. One of the ways that the Company has sought to accomplish these goals is by making a significant portion of individual NEO compensation directly dependent on the Company's objectives, such as bonuses that have a strong revenue and operating profit component. In addition, the Company makes annual grants of stock options, which focus the NEO on creating stockholder value while encouraging executives to build an equity interest in the Company, and annual grants of time-based restricted stock units, which promote retention of key leadership talent. In 2016, the Company also granted special performance-based restricted stock units to certain of our NEOs both to meet retention concerns and link pay to performance. Finally, the Company generally pays NEOs compensation that will be above peer company executive compensation when Company performance is above its peer companies and below peer company executive compensation when the Company's financial performance is below that of its peer companies.

The Compensation Committee will continue to emphasize compensation arrangements that align the financial interests of Intevac's NEOs with the long-term interests of stockholders. Please refer to the section of this proxy statement entitled "Executive Compensation and Related Information" for a detailed discussion of Intevac's executive compensation practices and philosophy.

We are asking our stockholders to indicate their support for our NEO compensation as described in this Proxy Statement. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our NEOs and the philosophy, policies and practices described in this Proxy Statement. Accordingly, we ask our stockholders to vote "FOR" the following resolution at the 2017 Annual Meeting:

"RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the company's Proxy Statement for the 2017 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the tabular disclosure regarding such compensation and the accompanying narrative disclosure."

The Board of Directors recommends a vote "FOR" the (non-binding) vote approving, on an advisory basis, the compensation of the Company's executives named in the 2016 Summary Compensation Table, as disclosed in the Company's Proxy Statement pursuant to the executive compensation disclosure rules of the Securities and Exchange Commission, which disclosure includes the Compensation Discussion and Analysis, the compensation tables and other executive compensation disclosures.

PROPOSAL SIX

FREQUENCY OF ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires us to provide an advisory stockholder vote to determine how often to present the advisory stockholder vote to approve the compensation of Intevac's NEOs (the "say-on-pay vote"). At least every 6 years, Intevac must solicit your advisory vote on whether to have the say-on-pay vote every 1, 2 or 3 years. Stockholders may vote as to whether the say-on-pay vote should occur every 1, 2 or 3 years, or may abstain from voting on the matter. The frequency (every 1, 2 or 3 years) that receives the highest number of votes will be deemed to be the choice of the stockholders.

The Board values the opinion of our stockholders and welcomes communication regarding Intevac's executive compensation policies and practices. After taking into account various considerations described below, the Board believes that a triennial vote will provide stockholders with the ability to express their views on Intevac's executive compensation policies and practices while providing the Board with an appropriate amount of time to consult with the stockholders, to consider their input, to follow consistent compensation programs and to allow such programs to be effective.

Intevac's executive compensation program is administered by the Compensation Committee, as described in this proxy statement. Compensation decisions are complex and, with respect to Intevac's NEOs, are disclosed in the proxy statement. The Board believes that establishing a three-year time frame for holding stockholder advisory votes on executive compensation will both enhance stockholder communication and provide the Company time to consider, engage with and respond to stockholders, in terms of expressed concerns or other feedback. In addition, the Board also believes that a triennial vote is consistent with our long-term business strategy.

You may cast your vote on your preferred voting frequency by choosing the option of 1, 2 or 3 years or abstain from voting when you vote in response to the resolution set forth below.

"RESOLVED, that the option of once every 1, 2 or 3 years that receives the highest number of votes cast for this resolution will be determined to be the preferred frequency with which the Company is to hold an advisory stockholder vote to approve the compensation of the named executive officers, as disclosed pursuant to the Securities and Exchange Commission's compensation disclosure rules, including the Compensation Discussion and Analysis, the tabular disclosure regarding such compensation and the accompanying narrative disclosure."

The option of 3 years, 2 years or 1 year that receives the highest number of votes cast by stockholders will be the frequency for the advisory vote on the compensation of our NEOs that has been selected by stockholders. Although, as an advisory vote, this vote is not binding upon the Company or the Board, the Board will carefully consider the stockholder vote on this matter, along with all other expressions of stockholder views it receives on this matter.

While you have the opportunity to vote for every 1, 2 or 3 years, or abstain from voting on the frequency of say-on-pay votes the Board of Directors recommends a vote "FOR" a frequency of say-on-pay votes of every 3 years.

CORPORATE GOVERNANCE MATTERS

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. We have also adopted a Director Code of Ethics that applies to all of our directors. You can find both our Code of Business Conduct and Ethics and our Director Code of Ethics on our website at www.intevac.com. We post any amendments to the Code of Business Conduct and Ethics and the Director Code of Ethics, as well as any waivers, which are required to be disclosed by the rules of either the SEC or Nasdaq on our website.

Independence of the Board

The Board has determined that, with the exception of Mr. Pond and Mr. Blonigan, all of its members are “independent directors” as that term is defined in the listing standards of Nasdaq.

Board Meetings and Committees

During 2016, the Board held a total of four meetings (including regularly scheduled and special meetings) and also took certain actions by written consent. All members of the Board during fiscal 2016 attended at least seventy-five percent of the aggregate of the total number of meetings of the Board held during the fiscal year and the total number of meetings held by all committees of the Board on which each such director served (based on the time that each member served on the Board and the committees). The Board has an Audit Committee, a Compensation Committee and a Nominating and Governance Committee.

Audit Committee

The Audit Committee, which has been established in accordance with Section 3(a)(58)(A) of the Exchange Act, currently consists of Mr. Dury (chairman), Mr. Giles, and Mr. Rohrs, each of whom is “independent” as such term is defined for audit committee members by the Nasdaq listing standards. Subsequent to the annual meeting, it is intended that the Audit Committee will consist of Mr. Dury (chairman), Mr. Rohrs and Mr. Schaefer. The Board has determined that each member of the committee is an “audit committee financial expert” as defined under the rules of the SEC. The Audit Committee met nine times during 2016.

The Audit Committee is responsible for:

- Overseeing our accounting and financial reporting processes and audits of our financial statements;
- Assisting the Board in overseeing and monitoring (i) the integrity of our financial statements, (ii) our independent auditor’s qualifications, independence and performance, and (iii) our internal accounting and financial controls;
- Preparing the report that the rules of the SEC require be included in this proxy statement;
- Periodically providing the Board with the results of its monitoring and recommendations derived therefrom; and
- Providing to the Board additional information and materials as it deems necessary to make the Board aware of significant financial matters that require the attention of the Board.

The Audit Committee has adopted a written charter approved by the Board, which is available on Intevac’s website at www.intevac.com under “Company — Corporate Governance.”

The Audit Committee Report is included in this proxy statement on page 59.

Compensation Committee

The Compensation Committee currently consists of Mr. Schaefer (chairman), Mr. Dury, and Mr. Rohrs, each of whom is “independent” as such term is defined by the Nasdaq listing standards and the rules of the SEC. Subsequent to the annual meeting, it is intended that the Compensation Committee will consist of Mr. Schaefer (chairman), Mr. Drapkin and Mr. Rohrs. The Compensation Committee met two times during 2016.

The Compensation Committee is responsible for:

- Overseeing the entirety of our compensation and benefit policies, plans and programs;
- Overseeing the annual report on executive compensation for inclusion in our proxy statement; and
- Overseeing executive succession planning.

See “Executive Compensation — Compensation Discussion and Analysis” and “Executive Compensation — Compensation of Directors” below for a description of Intevac’s processes and procedures for the consideration and determination of executive and director compensation.

The Compensation Committee has adopted a written charter approved by the Board, a copy of which is available on Intevac’s website at www.intevac.com under “Company — Corporate Governance.”

The Compensation Committee Report is included in this proxy statement on page 47.

Nominating and Governance Committee

The Nominating and Governance Committee currently consists of Mr. Drapkin (chairman), Mr. Benham and Mr. Schaefer, each of whom is “independent” as such term is defined by the Nasdaq listing standards. Subsequent to the annual meeting, it is intended that the Nominating and Governance will consist of Mr. Drapkin (chairman) and Mr. Dury. The Nominating and Governance Committee met two times during 2016.

The primary focus of the Nominating and Governance Committee is on the broad range of issues surrounding the composition and operation of the Board. The Nominating and Governance Committee provides assistance to the Board, the Chairman and the CEO in the areas of membership selection, committee selection and rotation practices, evaluation of the overall effectiveness of the Board, and review and consideration of developments in corporate governance practices. The Nominating and Governance Committee’s goal is to ensure that the composition, practices, and operation of the Board contribute to value creation and effective representation of Intevac stockholders.

The Nominating and Governance Committee will consider recommendations of candidates for the Board submitted by the stockholders of Intevac; for more information, see “Policy Regarding Board Nominees” below.

The Nominating and Governance Committee has adopted a written charter approved by the Board, a copy of which is available on Intevac’s website at www.intevac.com under “Company — Governance.”

Compensation Committee Interlocks and Insider Participation

Mr. Dury, Mr. Rohrs, and Mr. Schaefer served as members of the Compensation Committee during fiscal 2016. No interlocking relationship exists between any member of Intevac’s Board or Compensation Committee and any member of the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past. No member of the Compensation Committee is or was formerly an officer or an employee of Intevac.

Attendance at Annual Stockholder Meetings by the Board

Intevac encourages members of the Board to attend the annual meeting of stockholders, but does not have a policy requiring attendance. Mr. Pond, Mr. Blonigan, Mr. Dury, Mr. Benham, Mr. Drapkin, Mr. Giles, Mr. Rohrs, and Mr. Schaefer attended Intevac's 2016 annual meeting of stockholders.

Lead Director

Mr. David Dury serves as Lead Director and liaison between management and the other non-employee directors. The Lead Director schedules and chairs meetings of the independent directors. The independent directors (including the Lead Director) hold a closed session at each regularly scheduled Board meeting.

Board Leadership Structure

Our company is led by Mr. Blonigan, our CEO. Mr. Pond who founded Intevac in 1991 serves as the Chairman of our Board and has served as chair since the Company's inception. As discussed above under "Lead Director", one of our independent directors, Mr. Dury, acts as our independent lead director. The Company believes the stockholders are best served by this structure, which provides us with a dynamic leader, a steady connection to the Company's history and a strong independent voice.

As further discussed above under "Board Meetings and Committees", the Board has three standing committees—Audit, Compensation and Nominating and Governance. Each of the Board committees is comprised solely of independent directors, with each of the three committees having a separate chair. Our corporate governance guidelines provide that our non-employee directors meet in an executive session at each Board meeting. We also have a mechanism for stockholders to communicate directly with independent directors as a group or with any individual director.

Our directors bring a broad range of leadership experience to the Board and regularly contribute to the oversight of the Company's business and affairs. We believe that all Board members are well engaged in their responsibilities and that all Board members express their views and consider the opinions expressed by other directors. On an annual basis as part of our governance review, the Board (led by the Nominating and Governance Committee) evaluates our leadership structure to ensure that it remains the optimal structure for our company and our stockholders.

We believe that our leadership structure has been effective for the Company. We believe that having an independent lead director and independent chairs for each of our Board committees provides the right amount of independence for our company. We have a strong leader and chairman, and oversight of company operations by experienced independent directors who have appointed an independent lead director and committee chairs.

Policy Regarding Board Nominees

It is the policy of the Nominating and Governance Committee of the Company to consider recommendations for candidates to the Board from stockholders. Stockholder recommendations of candidates for election to the Board should be directed in writing to: Intevac, Inc., 3560 Bassett Street, Santa Clara, California, 95054, and must include the candidate's name, home and business contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and the Company within the last three years, and evidence of the nominating person's ownership of Company stock. Stockholder nominations to the Board must also meet the requirements set forth in the Company's bylaws. The Nominating and Governance Committee also reviews materials provided by professional search firms and other parties in connection with a nominee who is not proposed by a stockholder. In evaluating such nominations, the Nominating and Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board.

The Nominating and Governance Committee's criteria and process for identifying and evaluating the candidates that it selects, or recommends to the full Board for selection, as director nominees are as follows:

- The Nominating and Governance Committee regularly reviews the current composition, size and effectiveness of the Board.
- In its evaluation of director candidates, including the members of the Board eligible for re-election, the Committee seeks to achieve a balance of knowledge, experience and capability on the Board and considers (1) the current size and composition of the Board and the needs of the Board and the respective committees of the Board, (2) such factors as issues of character, judgment, diversity, age, expertise, business experience, length of service, independence, other commitments and the like, (3) the relevance of the candidate's skills and experience to our businesses and (4) such other factors as the Nominating and Governance Committee may consider appropriate.
- While the Nominating and Governance Committee has not established specific minimum qualifications for director candidates, the Nominating and Governance Committee believes that candidates and nominees must reflect a Board that is comprised of directors who (1) are predominantly independent, (2) are of high integrity, (3) have broad, business-related knowledge and experience at the policy-making level in business, government or technology, including an understanding of our industry and our business in particular, (4) have qualifications that will increase overall Board effectiveness and (5) meet other requirements that may be required by applicable rules, such as financial literacy or financial expertise with respect to Audit Committee members.
- The Board will nominate for election or reelection only those candidates who agree to tender, promptly following such candidate's election or reelection, an irrevocable resignation effective upon (i) such candidate's failure to receive the required vote for election at the next meeting at which they would stand for election and (ii) acceptance of such resignation by the Board. In addition, the Board will fill director vacancies and new directorships only with candidates who agree to tender the same form of resignation promptly following their election to the Board.
- With regard to candidates who are properly recommended by stockholders or by other means, the Nominating and Governance Committee will review the qualifications of any such candidate, which review may, in the Nominating and Governance Committee's discretion, include interviewing references for the candidate, direct interviews with the candidate, or other actions that the Committee deems necessary or proper.
- In evaluating and identifying candidates, the Nominating and Governance Committee has the authority to retain or terminate any third party search firm that used to identify director candidates, and has the authority to approve the fees and retention terms of any search firm.
- The Nominating and Governance Committee will apply these same principles when evaluating Board candidates who may be elected initially by the full Board to fill vacancies or to expand the Board prior to the annual meeting of stockholders at which directors are elected.
- After completing its review and evaluation of director candidates, the Nominating and Governance Committee selects, or recommends to the full Board for selection, the director nominees.
- The Nominating and Governance Committee, after considering all factors, will decide whether or not to nominate and recommend a nominee to the full Board.

Director Qualifications and Review of Director Nominees

The Nominating and Governance Committee makes recommendations to the Board regarding the size and composition of the Board. The Committee reviews annually with the Board the composition of the Board as a whole. The Committee is responsible for ensuring that the composition of the Board accurately reflects the needs of the Company's business and, in furtherance of this goal, proposing the addition of members and the necessary resignation of members for purposes of obtaining the appropriate members and skills. The specific qualifications

of each director are set forth along with their biographical information under “Business Experience and Qualifications of Nominees for Directors” starting on page 9 of this proxy.

Intevac does not maintain a formal diversity policy with respect to its Board. As noted above, however, Intevac does consider diversity to be a relevant consideration, among others, in the process of evaluating and identifying director candidates. Intevac believes each director brings a strong and unique background and set of skills to the Board that contributes to the Board’s competence and experience in a wide variety of areas. When identifying director candidates, we take into account the present and future needs of the Board and the committees of the Board. For instance, depending on the composition of the Board at a given time, a candidate capable of meeting the requirements of an audit committee financial expert might be a more attractive candidate than a candidate with significantly more technology industry expertise, or vice versa. We also consider the character, judgment and integrity of director candidates, which we evaluate through reference checks, background verification and reputation in the business community. We believe all of our directors to be of high character, good judgment and integrity. Our principal goal with respect to director qualifications is to seat directors who are able to increase the overall effectiveness of the Board and increase stockholder value.

Contacting the Board

Any stockholder who desires to contact our Chairman of the Board or the other members of our Board may do so by writing to: Board of Directors, c/o the Nominating and Governance Committee Chairman, Intevac, Inc., 3560 Bassett Street, Santa Clara, California, 95054. Communications received by the Nominating and Governance Committee Chairman will also be communicated to the Lead Director, the Chairman of the Board or the other members of the Board as appropriate depending on the facts and circumstances outlined in the communication received.

Risk Assessment

Our Board is responsible for overseeing enterprise risk in general, while our Audit Committee is responsible for overseeing risk management of financial matters and the adequacy of our risk-related internal controls and our Compensation Committee oversees risk related to compensation policies. Both the Audit and Compensation Committees report their findings to the full Board. In addition, at each of its meetings, the Board discusses the risks that we are currently facing. We believe that our directors provide effective oversight of the risk management function.

Employee Compensation Risks

The Compensation Committee has assessed the risks associated with the Company’s compensation policies and practices for all employees, including non-executive officers. The Committee reviewed a list of the Company’s compensation policies and practices, which were discussed extensively, and reviewed with management the potential risks associated with the Company’s policies and practices and the factors that management believe mitigate such risks. Based on the results of its assessment, the Committee does not believe that the Company’s compensation policies and practices for all employees, including non-executive officers, create risks that are reasonably likely to have a material adverse effect on the Company.

Compensation Consultant

The Compensation Committee has engaged Radford, an Aon Hewitt Company (“Radford”) to provide advice and recommendations on the amount and form of executive and director compensation. The Company did not pay Radford fees in excess of \$120,000 during 2016.

EXECUTIVE COMPENSATION AND RELATED INFORMATION

Compensation Discussion and Analysis

The following is a discussion of our executive compensation program and the compensation decisions made for fiscal 2016 with respect to the NEOs in the 2016 Summary Compensation Table on page 48.

Executive Summary

Intevac's businesses are characterized by rapidly changing technology and customer requirements; intense competition; fluctuating revenues; and significant competition for management talent. In this environment, the objectives of our executive compensation program are to:

- Attract, retain, and motivate high-caliber executives.
- Provide a compensation opportunity for our executives that is competitive with practices for similarly-sized technology equipment companies.
- Further encourage alignment with stockholders through the grant of stock-based awards while limiting the total dilution of our stockholders.
- Maintain strong and direct links between executive pay, individual performance, the Company's financial performance and performance for our stockholders.

During fiscal 2016, our Compensation Committee worked with its independent advisor, Radford, and our senior management to assess these objectives and the compensation plan design to ensure that it continues to meet our business needs. Through the course of this assessment, the Compensation Committee confirmed these objectives for fiscal 2016.

We evaluate our executive compensation program annually. Among other things, we consider the outcome of our most recent Say on Pay vote and any feedback we receive from our stockholders. In May 2014, our stockholders voted to approve our 2014 advisory vote on executive compensation, with 84% of the votes cast in favor of the advisory proposal. The Compensation Committee was mindful of this support and in considering these advisory vote results and other factors, did not implement any significant changes to our executive compensation program for fiscal 2016. Although the Compensation Committee did not implement significant changes in 2016, the CEO and Executive Vice President and General Manager of the Thin-Film Equipment Group were granted market condition-based restricted stock units as part of an incentive program for certain key technical contributors and to further strengthen our alignment with our pay for performance philosophy. The Compensation Committee continues to take into consideration the results of this advisory vote in seeking ways in which the Company can further strengthen the pay for performance alignment and also bring certain aspects of our long-term incentive executive compensation more in line with evolving market practices. We are holding our third Say on Pay advisory vote at our 2017 Annual Meeting as described under Proposal Five of this Proxy Statement. We also are asking our stockholders to vote, on an advisory basis, on the frequency of future Say on Pay advisory votes.

The specific compensation principles, components and decisions during 2016 are discussed in more detail below.

Principles of Executive Compensation

Our compensation structure is designed to attract, retain, motivate, and reward high-performing executives. The guiding principles of our executive compensation plan are as follows:

- Provide a total compensation opportunity that is competitive with our peer group, but that also takes into account the need to compete for talent with much larger equipment and imaging companies.

- Align compensation with the Company’s performance by:
 - Providing a significant portion of total compensation in the form of a performance-based annual bonus dependent on each executive’s performance relative to predetermined financial and other strategic objectives set at the beginning of each fiscal year.
 - Providing long-term, significant equity incentives in the form of a combination of stock options and/or time-based and market condition-based restricted stock units (“RSUs”) in order to retain those individuals with the leadership abilities necessary for increasing long-term stockholder value while aligning the interests of our NEOs with those of our stockholders.
 - Setting challenging performance goals for our NEOs and providing a short-term incentive through an incentive compensation plan that is based upon achievement of these goals.
- Increase the portion of total compensation based on performance-based annual bonuses and stock-based awards relative to base salary with increasing executive responsibility level.
- Align each executive’s goals with those of other executives to encourage a team approach to problem solving.
- Provide clear guidelines for each compensation element relative to market practices (base salary, performance-based annual bonus and annual equity grants), while allowing the Compensation Committee flexibility to make final decisions based on management recommendations (other than decisions for the CEO, which are made by the independent members of the Board), and other factors such as experience, contribution to business success and retention needs.

The Compensation Committee

The Compensation Committee oversees, reviews and approves the compensation and benefit policies, plans and programs for the entire Company, including our NEOs. The Compensation Committee develops goals and objectives for the CEO and reviews his performance related to his established goals and objectives. The Compensation Committee recommended the principal elements of Mr. Blonigan’s annual compensation as CEO to the Board for approval. The Compensation Committee reviewed with Mr. Blonigan and approved the principal elements of compensation for the NEOs (other than Mr. Blonigan). The Compensation Committee also reviewed with Mr. Blonigan and approved merit increases, as well as bonuses and equity grants for non-NEO employees. The Compensation Committee also annually reviews the compensation of the members of the Board and recommends any changes to the Board. Final approval of compensation for Mr. Blonigan, the CEO, and the members of the Board was given by the independent members of the Board. The Compensation Committee also reviews and makes recommendations to the Board regarding executive succession planning, incentive compensation plans, and equity compensation plans.

2016 Independent Advisor and Competitive Market Data

The Compensation Committee retained Radford to assist it in evaluating 2016 executive compensation programs and to provide advice and recommendations on the amount and form of executive compensation, and the allocation of compensation across the compensation components described below. The instructions provided to Radford included assessing target compensation levels for our executives relative to market practices and evaluating the overall design of our executive compensation program. In addition, Radford was engaged by the Compensation Committee to update the assessment of the competitiveness of compensation for our Board. From time to time, at the Compensation Committee’s request, Radford attended Compensation Committee meetings. Radford reported directly to the Compensation Committee and not to management. The Compensation Committee assessed the independence of Radford pursuant to SEC rules and concluded that the work of Radford has not raised any conflict of interest.

Executive compensation data was drawn from the Radford Executive Benchmark Survey for companies in the semiconductor equipment, imaging, electronic equipment and instruments industries, that design and

manufacture equipment related to the manufacturing process of technology products, that have 3-year average revenues generally falling between \$100 and \$300 million and from publicly available proxy filings for the peer companies identified below (the “Peer Companies”). In the case of the data from the proxy filings of the Peer Companies, only data for the CEO and Chief Financial Officer positions was obtained, as these are the only two positions reported with sufficient frequency among the Peer Companies to draw meaningful conclusions on competitive pay. The market compensation levels for comparable positions were examined by Radford and the Compensation Committee as part of the process to determine overall program design, base salary, target incentives and annual stock-based awards, including the total equity pool for allocation to all employees.

The Peer Companies we used to evaluate market compensation positioning for executives in making 2016 compensation decisions were selected in September 2015 based on the selection criteria discussed above, which the Compensation Committee deemed relevant at that time. The Compensation Committee reviewed and no changes were made from the 2015 Peer Companies. As a result, the 2016 Peer Companies include the following companies:

- Amtech Systems, Inc. *
- AXT Inc. *
- CoHu Inc. *
- Electro Scientific Industries, Inc. *
- EMCORE Corporation. *
- GSI Group Inc. *
- Mattson Technology, Inc. *
- NeoPhotonics Corporation *
- Rudolph Technologies, Inc. *
- Xcerra Corp. *
- Axcelis Technologies, Inc. *
- Cascade Microtech, Inc. *
- CyberOptics Corporation *
- eMagin Corporation *
- FormFactor Inc.*
- Kopin Corporation *
- Nanometrics Inc. *
- Rubicon Technology, Inc. *
- Ultratech Inc. *

* Included in the 2015 peer group

In early 2016, the base salary, total target cash compensation (base salary plus performance-based annual cash bonus) and total target compensation (including stock-based awards) for each of Intevac’s seven most senior executives, including our NEOs, were compared to market pay levels for executives with similar levels of responsibility. In comparing the compensation of the Company’s NEOs, the Compensation Committee evaluated all forms of cash compensation and stock based awards, and considered many factors, including the Company’s policy of tying 50% of cash incentive compensation to Company profitability and the value of employee equity grants. The Compensation Committee concluded that Intevac’s executive compensation was:

- Appropriate considering the available competitive data, the Company’s improving financial performance, and the Company’s need to retain key employees; and
- That it continued to provide strong incentives to management to optimize Intevac’s financial performance in each year and over time.

The Compensation Committee believes that the Company’s program to compensate NEOs and other employees is consistent with the intent and design of the Company’s variable pay programs, which link actual pay directly to improved operating results, and result in reduced compensation in years in which financial results do not meet expectations.

Role of the CEO

During 2016, Mr. Blonigan provided recommendations to the Compensation Committee with respect to base salary amounts, target bonus percentages, bonus payments, and stock-based awards for each NEO (other than

himself). These compensation recommendations were based on market data reviewed by the Compensation Committee and a review by Mr. Blonigan of each executive officer's overall performance and contribution to the Company during the prior year. While the Compensation Committee considered the recommendations of Mr. Blonigan with respect to these elements of compensation, the Compensation Committee independently evaluated the recommendations and made all final compensation decisions. Mr. Blonigan did not make any recommendations as to his own compensation and such decisions are made solely by the independent members of the Board (without Mr. Blonigan present), after recommendations were made to the Board by the Compensation Committee.

Compensation Components

The components of executive compensation are:

- Base salary;
- Performance-based annual bonus;
- Annual grants of long-term, equity-based incentives, which in 2016, consisted of stock options and time-based RSUs; and
- Special market condition-based RSUs (also known as performance-based RSUs) which were granted to certain of our NEOs.

We allocate total potential and target compensation among these components based on the goals of our compensation program, including the need to offer competitive compensation and our focus on paying for performance. We also provide our executives the same benefits and perquisites that we offer our other U.S. employees. These standard employee benefits include participation in our 401(k) plan and employee stock purchase plan, and health and welfare and life insurance benefits, each with the same terms and conditions available to employees.

2016 Executive Compensation

Base Salary:

We provide our NEOs and other employees with base salary to compensate them for services rendered during the fiscal year. The purpose of base salary is to reward effective fulfillment of the assigned job responsibilities, and to reflect the position's relative value to the Company and competitiveness of the executive job market.

Newly Hired NEOs: Prior to making an offer of employment to a NEO, the Compensation Committee approves the executive officer's compensation, including base salary, and short term and long term incentives after consideration of the recommendation of the CEO. In setting the executive officer's base salary, a number of factors are taken into account, in the Compensation Committee's discretion, including the executive's compensation with his or her previous employer, the compensation of other Intevac executives, the competitive labor market for similar executives, and how difficult it is to recruit and retain executive officers with similar skills and experience. None of these factors is specifically weighted and the evaluation includes a subjective evaluation of skills, experience and responsibilities in the Compensation Committee's judgment. None of our NEOs were newly hired in 2016.

Continuing NEOs: Once a NEO has joined Intevac, the Compensation Committee approves any changes to his or her base salary during its annual review. The competitive market data provided by the independent compensation consultant is used, in addition to an assessment of each executive's responsibilities and performance against goals and objectives (See "*Performance-based annual bonus, Annual Strategic Objectives*" below for details relating to these goals and objectives), to determine any annual changes to base salary. As with

new hires, these factors are evaluated at the Compensation Committee’s discretion and in the Compensation Committee’s judgment. If an annual adjustment to an executive’s base salary is approved, it also proportionately affects the executive’s target bonus (“Target Bonus”) which is determined for each executive by multiplying the executive’s base salary by the applicable target bonus percentage determined for such executive by the Compensation Committee (“Target Bonus Percentage”).

Base Salaries: 2016 base salaries for the NEOs were approved by the Compensation Committee (with the exception of Mr. Blonigan, whose base salary was approved by the independent members of the Board, upon recommendation of the Compensation Committee). For 2016, base salaries for our continuing NEOs were not increased because the current base salaries continued to be competitive and meet our retention needs.

The annual base salaries for the NEOs in 2015 and 2016 were as follows:

<u>Executive</u>	<u>2015 Base Salary</u>	<u>2016 Base Salary</u>
Wendell Blonigan, President and CEO	\$500,000	\$500,000
James Moniz, Executive Vice President, Finance and Administration, Chief Financial Officer and Treasurer	\$315,000	\$315,000
Andres Brugal Executive Vice President and General Manager, Photonics	\$290,000	\$290,000
Jay Cho Executive Vice President and General Manager, Thin Film Equipment	\$290,000	\$290,000
Christopher Smith Vice President Business Development	\$275,000	\$275,000

Performance-based annual bonus:

We provide the opportunity to earn performance-based annual bonuses to our NEOs and other management employees under our Annual Incentive Plan (“AIP”).

The AIP consists of two parts: the “Individual Performance Bonus” which is completely based on each NEO’s performance against goals and objectives set at the beginning of the year; and the “Financial Performance Based Bonus” which is completely based on Intevac’s financial performance (profitability). The “Individual Performance Bonus” and the “Financial Performance Based Bonus” could be paid in cash or time-based RSUs at the discretion of the Compensation Committee. Having a bonus program based half on individual performance is important in order to provide our NEOs with incentives to achieve the goals and objectives based on their individual functional areas and to maximize the Company’s value as well as for retention considerations, while having half based on Company profitability focuses the NEOs on the common goal of continuing to drive overall Company performance. The objective of the AIP is to align our executive compensation with actual short-term business performance and with strategic business objectives.

The components to determine the performance-based bonus include:

- Target Bonus; and
- Annual Strategic Objectives.

Each of these components and the resulting calculation of the annual bonus payments are described in more detail below.

Target Bonus: Each participating NEO is assigned an annual Target Bonus, computed by multiplying each executive’s base salary times his or her Target Bonus Percentage. Based on the program set up by the

Compensation Committee for 2016, the NEO's Target Bonus is half based on individual performance and half based on financial performance. For 2016, AIP participants Individual Performance Based Bonuses are capped at a maximum of one times the Target Bonus and AIP participants Financial Performance Based Bonuses are capped at a maximum of two times the Target Bonus. The total bonus payout is therefore capped at a maximum of 150% times the Target Bonus for 2016.

Target Bonus Percentages are determined based on competitive market data, internal equity considerations, and the degree of difficulty associated with achieving performance levels. Each factor is evaluated by the Compensation Committee based on data and input provided by management and the independent compensation consultant. The Compensation Committee believes that the 2016 Target Bonus Percentages were appropriate for each NEO based upon his position within the Company, level of responsibility and performance objectives. For 2016, Target Bonus Percentages for our NEOs were not increased.

Target Bonus Percentages and actual bonuses awarded for the NEOs for 2016 were as follows:

Executive	2015 Target Bonus as a Percent of Base Salary	2016 Target Bonus as a Percent of Base Salary	2016 Target Bonus	Value of RSUs Actually Awarded in 2017 for 2016 Performance Period	Percent of Target Paid
Wendell Blonigan	100%	100%	\$500,000	\$250,013	50%
James Moniz	65%	65%	\$204,750	\$ 99,309	49%
Andres Brugal	60%	60%	\$174,000	\$ 61,773	36%
Jay Cho	60%	60%	\$174,000	\$ 87,004	50%
Christopher Smith	50%	50%	\$137,500	\$ 47,441	35%

2016 AIP Settled in RSUs: In early 2016, in order to lower cash expenditures but to continue to reward employees for their hard work, the Compensation Committee determined that AIP participants, would receive their bonuses with respect to 2016 in the form of RSUs of the Company's Common Stock equal to 100% of their respective actual bonus amounts for 2016 (collectively, the "Bonus RSUs"). The number of shares granted to each NEO, except for Mr. Blonigan, was calculated by dividing the actual bonus amount by the closing price of the Company's Common Stock on February 7, 2017, the date of grant. The number of shares granted to Mr. Blonigan, was calculated by dividing his actual bonus amount by the closing price of the Company's Common Stock on February 15, 2017, the date of grant. Mr. Blonigan's date of grant differed due to his grant being issued by the full Board instead of the Compensation Committee, and the meetings having different dates. Mr. Blonigan was granted 23,257 RSUs, Mr. Moniz was granted 10,565 RSUs, Mr. Brugal was granted 6,572 RSUs, Mr. Cho was granted 9,256 RSUs and Mr. Smith was granted 5,047 RSUs. The Bonus RSUs are scheduled to vest 100% on February 15, 2018 subject to the applicable executive's continued service with the Company through that date.

Annual Strategic Objectives: As noted above, for 2016, the bonus plan was divided into two equal parts: the "Individual Performance Based Bonus" which was based upon the NEO's performance against specific goals and objectives (the "Goals") and the "Financial Performance Based Bonus" which was based on Company profitability. Each NEO received a comprehensive set of Goals established at the beginning of the fiscal year. The Goals were approved by the Compensation Committee at the beginning of 2016.

The following table shows fiscal 2016 individual Goals and their relative weightings for each NEO:

<u>NEO</u>	<u>Fiscal 2016 Goals (and Relative Weightings)</u>	<u>Performance</u>
Wendell Blonigan	(1) Achieve objectives related to Company financial performance including orders, revenue and operating profitability (Consolidated revenue was \$80.1 million compared to a goal of \$104.6 million. The consolidated operating loss was \$7.6 million compared to an operating income goal of \$700,000) (collectively weighted at 20%);	Partially Achieved
	(2) Achieve objectives related to Company balance sheet management including generating positive cash flow for the year) (collectively weighted at 10%);	Achieved
	(3) Achieve objectives related to corporate management including financial controls, investor relations, hiring and board of director communications (collectively weighted at 20%);	Partially Achieved
	(4) Achieve objectives related to Thin-Film Equipment new product plans including display cover panel, solar PVD and solar implant (collectively weighted at 20%);	Exceeded
	(5) Achieve objectives related to the strategic direction, growth and profitability of the Photonics business unit (collectively weighted at 20%);	Achieved
	(6) Achieve objectives related to leadership and employee engagement and safety (collectively weighted at 10%).	Achieved
James Moniz	(1) Achieve objectives related to Company financial performance including orders, revenue and operating profitability (Consolidated revenue was \$80.1 million compared to a goal of \$104.6 million. The consolidated operating loss was \$7.6 million compared to an operating income goal of \$700,000) (collectively weighted at 20%);	Partially Achieved
	(2) Achieve objectives related to corporate spending (weighted at 20%);	Achieved
	(3) Achieve objectives related to internal controls, working capital management, global information systems, and investor relations (collectively weighted at 25%);	Achieved
	(4) Achieve objectives related to financial planning, forecasting and internal and external reporting (collectively weighted at 25%); and	Achieved
	(5) Achieve strategic initiatives including organizational and leadership development, employee engagement, quality, and safety (collectively weighted at 10%).	Achieved
Andres Brugal	(1) Achieve objectives related to Company financial performance including orders, revenue and operating profitability (Consolidated revenue was \$80.1 million compared to a goal of \$104.6 million. The consolidated operating loss was \$7.6 million compared to an operating income goal of \$700,000) (collectively weighted at 20%);	Partially Achieved
	(2) Achieve objectives related to Photonics financial performance including orders, revenue and operating profitability (Photonics revenue was \$34.9 million compared to a goal amount of \$39.9 million. Photonics	Partially Achieved

<u>NEO</u>	<u>Fiscal 2016 Goals (and Relative Weightings)</u>	<u>Performance</u>
	operating profit was \$5.8 million compared to a goal amount of \$5.0 million) (collectively weighted at 20%);	
	(3) Achieve objectives related to funded research and development programs (collectively weighted at 25%);	Partially Achieved
	(4) Achieve objectives related to military market penetration (weighted at 25%); and	Majority Achieved
	(5) Achieve strategic initiatives including organizational and leadership development, employee engagement, quality, and safety (collectively weighted at 10%)	Partially Achieved
Jay Cho	(1) Achieve objectives related to Company financial performance including orders, revenue and operating profitability (Consolidated revenue was \$80.1 million compared to a goal of \$104.6 million. The consolidated operating loss was \$7.6 million compared to an operating income goal of \$700,000) (collectively weighted at 20%);	Partially Achieved
	(2) Achieve objectives related to Thin-film Equipment financial performance including orders, revenue and operating profitability (Thin-film Equipment revenue was \$45.3 million compared to a goal amount of \$64.7 million Thin-film Equipment operating loss was \$8.3 million compared to a goal amount of \$400,000 operating income) (collectively weighted at 20%)	Partially Achieved
	(3) Achieve objectives related to display cover panel business including orders and product development (collectively weighted at 25%);	Exceeded
	(4) Achieve objectives related to new hard disk drive equipment and solar PVD products (collectively weighted at 25%); and	Majority Achieved
	(5) Achieve strategic initiatives including organizational and leadership development, employee engagement, quality, and safety (collectively weighted at 10%).	Achieved
Christopher Smith	(1) Achieve objectives related to Company financial performance including orders, revenue and operating profitability (Consolidated revenue was \$80.1 million compared to a goal of \$104.6 million. The consolidated operating loss was \$7.6 million compared to an operating income goal of \$700,000) (collectively weighted at 20%);	Partially Achieved
	(2) Achieve objectives related to Solar financial performance including orders, revenue and operating profitability (collectively weighted at 20%);	Partially Achieved
	(3) Achieve financial and operational objectives related to Solar implant and PVD products (weighted at 25%);	Partially Achieved
	(4) Achieve business development and marketing objectives related to Solar PVD products (weighted at 25%); and	Partially Achieved
	(5) Achieve strategic initiatives including organizational and leadership development, employee engagement, quality, and safety (collectively weighted at 10%).	Achieved

The NEOs' performance against each of the 2016 Goals was evaluated at the end of the year by the CEO for all NEOs other than himself. The performance and evaluation was then reviewed and approved by the Compensation Committee. The Compensation Committee evaluated the CEOs performance which was then reviewed and approved by the independent members of the Board.

Likelihood of Achievement of Goals: In general, total performance targets for the goals of each NEO are set at aggressive levels, such that they anticipate performance in excess of what would be considered normal performance in the expected economic environment. The CEO recommends the Goals to the Compensation Committee, and these goals are typically considered reasonably difficult to achieve, as they were for 2016. For 2016, the bonus plan was divided into two equal parts: the "Goals" and the "Financial Performance Based Bonus" which was based on Company profitability. The actual payout to each participant employee depends on both the profitability of the Company and his or her Goal achievement for the measurement period. Although business conditions and financial results improved in fiscal 2016 over fiscal 2015, the Company reported a net loss in 2016 and as a result, the Financial Performance Based Bonus was not paid. The individual Goals associated with the Individual Performance Based Bonus were also considered aggressive and deemed difficult to achieve, and if achieved at 100% would have exceeded the Company's operational expectations for the measurement period. Due to their challenging nature, historical achievement of performance goals has fluctuated from year to year.

2016 Performance Against Individual Goals: In order to determine the payout associated with the Individual Performance Based Bonus, the Compensation Committee analyzed each NEO's performance versus their individual Goals. The specific performance versus objectives for each of the goals are not disclosed as there are multiple individual goals for each NEO and the disclosure of which would not be meaningful and would reveal confidential information regarding our business strategy and operations, which could result in substantial competitive harm.

Stock Based Compensation:

We grant stock-based compensation to our NEOs to align their interests with the long-term interests of our stockholders and to provide our executives with incentives to manage Intevac from the perspective of an owner with an equity stake in the business. In 2016, we utilized a mix of options and time-based RSUs for our NEOs, weighted with a ratio of options to RSUs of 2:1.

Stock Options

Stock options enable our executives to acquire shares of our common stock at a fixed price per share (the closing market price on the grant date). The stock options granted by the Company have a 7-year term, subject to earlier termination. The 2016 annual renewal grants for both stock options and RSUs for the NEOs vest in four equal annual installments.

Time-Based Restricted Stock Units

In early 2016 the Compensation Committee determined that for 2016, the Company would grant time-based RSUs, as it had in 2015. 2016 time-based awards were subject to a vesting schedule that vests in four equal annual installments, as measured from the grant date. The Company believes that time-based RSUs (50% of the equity mix for 2016) help promote retention of key leadership talent.

Additional information on the equity awards granted to the NEOs during fiscal 2016 is set forth in the "Grants of Plan Based Awards for Fiscal Year 2016" table.

Individual Grant Determinations: Annually, the Compensation Committee approves a pool of renewal stock-based awards to be granted to all grant recipients taking into consideration the total dilutive impact of all shares to be granted, the burn rate (the total number of shares to be granted as a percentage of shares outstanding), and projected compensation expense related to employee stock-based awards. Each year, the Compensation Committee sets guidelines for the size and mix of each grant to each NEO and other exempt employees. Actual stock-based award grants to the NEOs are made within the ranges set forth in these guidelines, based on the factors discussed below. For the NEOs, the guidelines reflect each NEO's position within the Company and are set at a level that the Compensation Committee considers appropriate to create a meaningful opportunity for reward predicated on increasing stockholder value, and appropriate to meet our retention goals. In determining the appropriate grant levels, the Compensation Committee reviews competitive market practices, taking into consideration both the potential value to individual participants compared to executives at other companies with similar responsibilities. The Compensation Committee also evaluated the mix of equity awards to be granted.

The Company for 2016 based the number of options and RSUs on market data with a ratio of options to RSUs of 2:1 utilized for 2016 annual grants, as the Company believes that this ratio represents the equivalent value of one RSU award to one share underlying a stock option.

Actual 2016 annual renewal grants to the NEOs, except for Mr. Blonigan, were proposed by Mr. Blonigan and reviewed and approved at a Compensation Committee meeting. In determining the number of option shares and time-based RSUs to grant to each individual, including Mr. Blonigan, the Compensation Committee took into account factors such as each executive's recent performance, level of responsibility, job assignment, the competitive climate, internal equity considerations, market data, and retention considerations. Each of these factors was considered by the Compensation Committee, in its judgment, and no formal weighting of these factors was used. 2016 NEO annual renewal grant levels for both stock options and RSUs were the same as 2015 levels.

The number of stock options and RSUs (other than RSUs granted as part of the 2016 AIP bonuses, as discussed above) granted to the NEOs in 2016 is shown in the table below.

<u>Executive</u>	<u>2015 Stock Option Grants</u>	<u>2015 Time-based RSU Grants</u>	<u>2016 Stock Option Grants</u>	<u>2016 Time-based RSU Grants</u>	<u>2016 Performance- based RSU Grants</u>
Wendell Blonigan	75,000	40,000	75,000	40,000	100,000
James Moniz	30,000	15,000	30,000	15,000	—
Andres Brugal	30,000	15,000	30,000	15,000	—
Jay Cho	30,000	15,000	30,000	15,000	25,000
Christopher Smith	16,250	8,125	16,250	8,125	—

Performance-Based Restricted Stock Units

During 2016, the Company made grants of RSUs to certain key technical contributors. Mr. Blonigan and Mr. Cho were each granted a performance-based RSU award that vests based on achievement of certain share price levels during the performance period, subject to continued employment with Intevac. The performance period is from the grant date of March 17, 2016 through December 31, 2020. Mr. Blonigan was granted 100,000 performance-based RSUs and Mr. Cho was granted 25,000 performance-based RSUs. The first tranche of the awards vested on January 3, 2017, which was the first date in the performance period on which the closing share price of Intevac stock equaled or exceeded \$8.00 for three consecutive trading days. The second tranche of the awards vested on February 14, 2017, which was the first date in the performance period on which the closing share price of Intevac stock equaled or exceeded \$10.00 for three consecutive trading days. The Compensation Committee believes the performance-based RSU awards requiring significant share price increases, is consistent with the Compensation Committee's pay-for-performance philosophy while also offering retention and inducement benefits.

The material terms of the performance-based RSU awards granted to Mr. Blonigan and Mr. Cho are:

<u>Vesting Schedule</u>	<u>Closing Share Price Performance Criteria (3 Consecutive Trading Days)</u>	<u>Required Share Price Improvement (as Measured from the March 17, 2016 Closing Price of \$4.41)</u>
The performance-based RSUs are scheduled to vest as follows if the share price performance criteria is met at any time during the performance period:		
25% of performance-based RSUs (vested on January 3, 2017)	\$ 8.00	81%
25% of performance-based RSUs (vested on February 14, 2017)	\$10.00	127%
25% of performance-based RSUs	\$12.50	183%
25% of performance-based RSUs	\$15.00	240%

Additional information on the performance RSUs granted to the NEOs during fiscal 2016 is set forth in the “Grants of Plan Based Awards for Fiscal Year 2016” table.

Timing of Stock-Based Awards: The Compensation Committee grants stock-based awards to NEOs shortly after their start date in accordance with our 2012 Equity Incentive Plan. Generally, the Compensation Committee also grants stock-based awards annually to our NEOs and other exempt employees. Annual renewal grants are made only on days when our insider trading window is open. The Company’s insider trading window opens the third business day after quarterly earnings have been released, and closes three weeks prior to the end of each quarter. Our policy is not to make our annual renewal grants during such times as management and/or the Compensation Committee may be in possession of material, non-public information. New hire grants are made each month on the third Thursday of the month, by unanimous written consent of the Compensation Committee members. This approval has been delegated to the CEO but the CEO may not approve new-hire grants to NEOs.

Ownership Guidelines and Hedging Policies: We do not currently have a stock ownership policy for our executive officers. However, all of our NEOs own shares of the Company’s common stock or vested, but unexercised, equity awards. Mr. Blonigan as a member of the Company’s Board is subject to the director stock ownership guidelines of the Company. The Company has an insider trading policy which, among other things, prohibits insiders from short sales of Intevac common stock. Other than these prohibitions, the Company has no specific policy regarding hedging of stock ownership positions.

Compensation Recovery Policy: Under the AIP, if it is determined after a bonus is paid under the plan that the individual and corporate performance upon which the bonus award was based was fraudulently represented, the Company has the right to require the return of the bonus. Outside of this provision, at this time, we have not implemented fraudulent misrepresentation policies or a policy regarding retroactive adjustments to any cash or equity-based incentive compensation paid to our executive officers and other employees where the payments were predicated upon the achievement of financial results that were subsequently the subject of a financial restatement. Our Compensation Committee intends to adopt a general compensation recovery policy (a “clawback” policy) covering our annual and long-term incentive award plans and arrangements after the SEC adopts final rules implementing the requirement of it and to the extent required by Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law.

Severance and Change in Control Arrangements

Severance agreements: The Company has a severance agreement with Mr. Blonigan. Benefits under the severance agreement is described under “*Potential Payments Upon Termination of Employment or Change in Control*” beginning on page 52. The Company does not intend to enter into new severance agreements.

Change in control employment agreements: The Company has change in control employment agreements with Mr. Cho and Mr. Moniz. Benefits under the change in control employment agreements, as well as an offer letter with Mr. Blonigan that provides for certain acceleration of vesting of his equity awards in connection with a change in control of the Company, in each case that are described under “*Potential Payments Upon Termination of Employment or Change in Control*” beginning on page 52. These agreements were entered into in connection with the negotiation of their employment agreements in order to attract the executives to the Company.

Impact of Accounting and Tax Treatment

Accounting Treatment: The fair value of equity awards is established in accordance with the applicable accounting standards and the related compensation expense is one of the factors taken into consideration by the Compensation Committee in determining NEO and other employee stock-based awards as noted under “Individual Grant Determinations.”

Tax Treatment: Under Section 162(m) of the Internal Revenue Service Code, Intevac receives a federal income tax deduction for compensation paid to our CEO and certain other NEOs only if the compensation paid to the individual executive is less than \$1 million during any fiscal year or is “performance-based” as defined under Section 162(m). The Compensation Committee balances the desirability of having compensation qualify for deductibility with our need to maintain flexibility in compensating executive officers in a manner designed to promote our goals. As a result, the Compensation Committee has not adopted a policy that all compensation must be deductible. For example, bonuses granted under the AIP and RSUs awarded to our NEOs are not designed to qualify as “performance-based” for purposes of Section 162(m), which affords Intevac flexibility in designing the bonus structure best suited to Intevac’s goals.

Compensation Committee Report

The information contained in this report shall not be deemed to be “soliciting material” or to be filed with the SEC, nor shall such information be incorporated by reference into any past or future filing under the Securities Act or the Exchange Act, except to the extent Intevac specifically incorporates it by reference into such filing.

The Compensation Committee oversees Intevac’s compensation policies, plans and benefit programs. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on such review and discussions, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

This report is submitted by the members of the Compensation Committee.

John F. Schaefer (Chairman)
David S. Dury
Thomas M. Rohrs

2016 Summary Compensation Table

The following table presents information concerning the total compensation of Intevac’s President and CEO, the Chief Financial Officer, and each of the three most highly compensated officers at the end of the last fiscal year (the “NEOs”) for services rendered to Intevac in all capacities for the fiscal years ended December 31, 2016, January 2, 2016 and January 3, 2015.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) (1)(6)(7)(8)	Option Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)(9)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)(10)	Total (\$)
Wendell Blonigan, President and Chief Executive Officer	2016	500,011	—	638,004	152,108	—	—	2,000	1,292,123
	2015	500,011	—	393,550	177,257	—	—	—	1,070,818
	2014	500,011	—	212,700	203,790	—	—	—	916,501
James Moniz (4), Executive Vice President and Chief Financial Officer	2016	313,804	—	157,998	60,843	—	—	2,000	534,645
	2015	302,901	—	81,300	68,379	—	—	—	452,580
	2014	42,405	—	180,500	166,716	34,125	—	—	423,746
Andres Brugal, Executive Vice President and General Manager, Photonics	2016	290,014	—	133,772	60,843	—	—	2,000	486,629
	2015	280,786	—	143,175	68,379	—	—	—	492,340
	2014	275,017	—	95,715	91,706	—	—	—	462,438
Jay Cho (5), Executive Vice President and General Manager, Thin Film Equipment	2016	290,014	—	190,053	60,843	—	—	2,000	542,910
	2015	290,014	—	81,300	68,379	—	—	—	439,693
	2014	278,860	—	63,750	188,890	87,000	—	—	618,500
Christopher Smith, Vice President Business Development	2016	275,018	—	94,000	32,957	—	—	2,000	403,975
	2015	275,018	—	88,041	37,038	—	—	—	400,097
	2014	272,285	—	49,630	47,551	—	—	—	369,466

- (1) Amounts shown do not reflect compensation actually received by the NEO. Instead, the amounts shown are the grant date fair value of time-based restricted stock units granted in fiscal 2016, fiscal 2015, and fiscal 2014 for all NEOs and market condition-based restricted stock units granted in fiscal 2016 for Mr. Blonigan and Mr. Cho as determined pursuant to ASC 718. For the market condition-based RSUs granted in 2016, a Monte Carlo simulation model is used to determine the fair value on the date of grant of the RSUs. The assumptions used to calculate the value of stock and option awards are set forth under Note 2 of the notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for fiscal 2016 filed with the SEC on February 15, 2017.
- (2) Amounts shown do not reflect compensation actually received by the NEO. Instead, the amounts shown are the grant date fair value of option awards granted in fiscal 2016, 2015 and 2014 as determined pursuant to ASC 718. The assumptions used to calculate the value of stock and option awards are set forth under Note 2 of the notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for fiscal 2016 filed with the SEC on February 15, 2017.
- (4) Mr. Moniz was hired on November 3, 2014.
- (5) Mr. Cho was hired on January 6, 2014.
- (6) The amounts shown in this column represent the values of restricted stock unit awards granted during the year indicated, regardless of when earned. The value of restricted stock units granted during the first quarter of 2016 in connection with each NEO’s fiscal 2015 bonus are included in 2016 compensation because they were granted in 2016. Mr. Blonigan’s, Mr. Moniz’s, Mr. Brugal’s, Mr. Cho’s and Mr. Smith’s 2015 AIP was settled with restricted stock units subject to a one-year vesting schedule. On February 2, 2016, Mr. Moniz, Mr. Brugal, Mr. Cho and Mr. Smith were granted a restricted stock unit award covering 19,545, 14,039, 12,853 and 12,500 shares of Common Stock, respectively, with a grant date fair value of \$85,998, \$61,772, \$56,553 and \$55,000 respectively. On February 22, 2016, Mr. Blonigan was granted a restricted stock unit award covering 45,559 shares of Common Stock with a grant date fair value of \$200,004. Because these restricted stock unit awards were granted in the first quarter of fiscal 2016 such awards will be disclosed in next year’s Summary Compensation Table as compensation for fiscal 2016.
- (7) The amounts shown in this column represent the values of restricted stock unit awards granted during the year indicated, regardless of when earned. The value of restricted stock units granted during the first quarter of 2015 in connection with each NEO’s fiscal 2014 bonus are included in 2015 compensation because they were granted in 2015. Mr. Blonigan’s, Mr. Brugal’s and Mr. Smith’s 2014 AIP was settled with restricted stock units subject to a one-year vesting schedule. On February 6, 2015, Mr. Brugal and Mr. Smith were granted a restricted stock unit award covering 9,033 and 6,424 shares of Common Stock, respectively, with a grant date fair value of \$61,875 and \$44,000 respectively. On February 27, 2015 Mr. Blonigan was granted a restricted stock unit award covering 24,600 shares of Common Stock with a grant date fair value of \$168,750.
- (8) The amounts shown in this column represent the values of restricted stock unit awards granted during the year indicated, regardless of when earned. The value of restricted stock units granted during the first quarter of 2017 in connection with each NEO’s fiscal 2016

bonus are not included in this column because they were granted in 2017. Mr. Blonigan's, Mr. Moniz's, Mr. Brugal's, Mr. Cho's and Mr. Smith's 2016 AIP was settled with restricted stock units subject to a one-year vesting schedule. On February 7, 2017, Mr. Moniz, Mr. Brugal, Mr. Cho and Mr. Smith were granted a restricted stock unit award covering 10,565, 6,572, 9,256 and 5,047 shares of Common Stock, respectively, with a grant date fair value of \$99,309, \$61,773, \$87,004 and \$47,441 respectively. On February 15, 2017, Mr. Blonigan was granted a restricted stock unit award covering 23,257 shares of Common Stock with a grant date fair value of \$250,013. Because these restricted stock unit awards were granted in the first quarter of fiscal 2017 such awards will be disclosed in next year's Summary Compensation Table as compensation for fiscal 2017.

(9) The amounts shown in this column represent the value of cash bonuses earned during the year indicated and paid in the first quarter of the subsequent year, excluding the portion settled with restricted stock unit awards. As per Mr. Moniz's employment letter, payment of \$34,125 of his 2014 annual bonus was guaranteed. As per Mr. Cho's employment letter, payment of \$87,000 of his 2014 annual bonus was guaranteed.

(10) Amounts in 2016 include matching contributions we made under our tax-qualified 401(k) plan, which provides for broad-based employee participation.

Grants of Plan-Based Awards in 2016

The following table presents information concerning grants of plan-based awards to each of the NEOs during the fiscal year ended December 31, 2016.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)(5)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Awards: Number of Shares of Stock or Units (3)(5) (#)	All Other Option Awards: Number of Securities Underlying Options (3) (#)	Exercise or Base Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards (\$) (4)
		Threshold (\$)(1)	Target (\$)(1)	Maximum (\$)(1)	Threshold (#)(2)	Target (#)(2)	Maximum (#)(2)				
Wendell Blonigan	02/22/16	—	—	—	—	—	—	45,559	—	4.39	200,004
	03/17/16	—	—	—	25,000	100,000	100,000	—	—	—	246,000
	05/19/16	—	—	—	—	—	—	40,000	75,000	4.80	344,108
	N/A	0	500,000	750,000	—	—	—	—	—	—	—
Jim Moniz	02/02/16	—	—	—	—	—	—	19,545	—	4.40	85,998
	05/19/16	—	—	—	—	—	—	15,000	30,000	4.80	132,843
	N/A	0	204,750	307,125	—	—	—	—	—	—	—
Andres Brugal	02/02/16	—	—	—	—	—	—	14,039	—	4.40	61,772
	05/19/16	—	—	—	—	—	—	15,000	30,000	4.80	132,843
	N/A	0	174,000	261,000	—	—	—	—	—	—	—
Jay Cho	02/02/16	—	—	—	—	—	—	12,853	—	4.40	56,553
	03/17/16	—	—	—	6,250	25,000	25,000	—	—	—	61,500
	05/19/16	—	—	—	—	—	—	15,000	30,000	4.80	132,843
	N/A	0	174,000	261,000	—	—	—	—	—	—	—
Christopher Smith	02/02/16	—	—	—	—	—	—	12,500	—	4.40	55,000
	05/19/16	—	—	—	—	—	—	8,125	16,250	4.80	71,957
	N/A	0	137,500	206,250	—	—	—	—	—	—	—

(1) Reflects threshold, target and maximum target bonus amounts for fiscal 2016 performance under the AIP, as described in "Compensation Discussion and Analysis — Compensation Components." 2016 AIP bonus are capped at a maximum of 150% times the Target Bonus.

(2) Reflects threshold, target and maximum target performance-based RSUs granted to Mr. Blonigan and Mr. Cho, as described in "Compensation Discussion and Analysis — Compensation Components."

(3) Reflects awards granted under the 2012 Equity Incentive Plan.

(4) Reflects the grant date fair value of each equity award computed in accordance with ASC 718. The assumptions used to calculate the value of option and stock awards are set forth under Note 2 of the notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for fiscal 2016 filed with the SEC on February 15, 2017.

(5) Mr. Blonigan's, Mr. Moniz's, Mr. Brugal's, Mr. Cho's and Mr. Smith's 2015 AIP bonus amounts were paid through the grant of restricted stock units with a one-year vesting schedule. On February 2, 2016 Mr. Moniz, Mr. Brugal, Mr. Cho and Mr. Smith were granted a restricted stock unit award covering 19,545, 14,039, 12,853, and 12,500 shares of Common Stock, respectively, with a grant date fair value of \$85,998, \$61,772, \$56,553 and \$55,000 respectively. On February 22, 2016 Mr. Blonigan was granted a restricted stock unit award covering 45,559 shares of Common Stock with a grant date fair value of \$200,004.

(6) Mr. Blonigan's, Mr. Moniz's, Mr. Brugal's, Mr. Cho's and Mr. Smith's 2016 AIP bonus amounts were paid through the grant of restricted stock units with a one-year vesting schedule. On February 7, 2017 Mr. Moniz, Mr. Brugal, Mr. Cho and Mr. Smith were granted a restricted stock unit award covering 10,565, 6,572, 9,256, and 5,047 shares of Common Stock, respectively, with a grant date fair value of \$99,309, \$61,773, \$87,004 and \$47,441 respectively. On February 15, 2017 Mr. Blonigan was granted a restricted stock unit award covering 23,257 shares of Common Stock with a grant date fair value of \$250,013.

Outstanding Equity Awards at 2016 Fiscal Year-End

The following table shows all outstanding option and stock awards held by each of the NEOs at the end of fiscal 2016.

Name	Option Awards (1)					Stock Awards (1)			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units, or Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Rights That Have Not Vested (\$)(2)
Wendell Blonigan	108,750	36,250(3)	—	6.55	07/15/2020	—	—	—	—
	30,000	30,000(4)	—	7.09	05/15/2021	15,000(5)	128,250	—	—
	25,000	50,000(6)	—	5.62	06/04/2022	26,666(7)	227,994	—	—
	—	75,000(8)	—	4.80	05/19/2023	40,000(9)	342,000	—	—
	—	—	—	—	—	45,559(10)	389,529	—	—
	—	—	—	—	—	—	—	100,000(11)	855,000
James Moniz	25,000	25,000(12)	—	7.22	11/20/2021	18,750(13)	160,313	—	—
	10,000	20,000(14)	—	5.42	05/21/2022	10,000(15)	85,500	—	—
	—	30,000(16)	—	4.80	05/19/2023	15,000(17)	128,250	—	—
	—	—	—	—	—	19,545(18)	167,110	—	—
Andres Brugal	40,000	—	—	8.24	01/19/2019	—	—	—	—
	17,250	5,750(19)	—	4.49	05/09/2020	—	—	—	—
	13,500	13,500(20)	—	7.09	05/15/2021	6,750(21)	57,713	4,920(22)	42,066
	10,000	20,000(14)	—	5.42	05/21/2022	10,000(15)	85,500	—	—
	—	30,000(16)	—	4.80	05/19/2023	15,000(17)	128,250	—	—
	—	—	—	—	—	14,039(23)	120,033	—	—
Jay Cho	22,500	22,500(24)	—	8.50	01/16/2021	3,750(25)	32,063	—	—
	10,000	20,000(14)	—	5.42	05/21/2022	10,000(15)	85,500	—	—
	—	30,000(16)	—	4.80	05/19/2023	15,000(17)	128,250	—	—
	—	—	—	—	—	12,853(26)	109,893	—	—
	—	—	—	—	—	—	—	25,000(27)	213,750
Christopher Smith	50,000	—	—	9.12	09/16/2017	—	—	—	—
	25,000	—	—	11.33	05/19/2018	—	—	—	—
	12,500	—	—	7.55	06/21/2019	—	—	—	—
	17,250	5,750(19)	—	4.49	05/09/2020	—	—	—	—
	7,000	7,000(28)	—	7.09	05/15/2021	3,500(29)	29,925	—	—
	5,417	10,833(30)	—	5.42	05/21/2022	5,416(31)	46,307	—	—
	—	16,250(32)	—	4.80	05/19/2023	8,125(33)	69,469	—	—
	—	—	—	—	—	12,500(34)	106,875	—	—

(1) Reflects options and RSUs granted under the 2012 Equity Incentive Plan and the 2004 Equity Incentive Plan.

(2) Reflects the fair value of outstanding stock awards as of December 31, 2016 at the closing market price of \$8.55 per share.

(3) Assuming continued employment with Intevac, 36,250 shares will become exercisable on July 15, 2017.

(4) Assuming continued employment with Intevac, 15,000 shares will become exercisable on May 15 of each of 2017 and 2018.

(5) Assuming continued employment with Intevac, 7,500 shares will vest on May 15 of each of 2017 and 2018.

(6) Assuming continued employment with Intevac, 25,000 shares will become exercisable on June 4 of each of 2017 and 2018.

(7) Assuming continued employment with Intevac, 13,333 shares will become exercisable on May 15 of each of 2017 and 2018.

(8) Assuming continued employment with Intevac, 18,750 shares will become exercisable on May 19 of each of 2017, 2018, 2019 and 2020.

(9) Assuming continued employment with Intevac, 10,000 shares will vest on May 15 of each of 2017, 2018, 2019 and 2020.

- (10) 45,559 shares vested on February 15, 2017.
- (11) 25,000 shares vested on January 3, 2017 when the IVAC stock closing price was \$8.00 or higher for three consecutive trading days. 25,000 shares vested on February 14, 2017 when the IVAC stock closing price was \$10.00 or higher for three consecutive trading days. Assuming continued employment with Intevac, 25,000 shares vest when the IVAC stock closing price is \$12.50 or higher for three consecutive trading days and 25,000 shares vest when the IVAC stock closing price is \$15.00 or higher for three consecutive trading days.
- (12) Assuming continued employment with Intevac, 12,500 shares will become exercisable on November 20 of each of 2017 and 2018.
- (13) 6,250 shares vested on February 15, 2017. Assuming continued employment with Intevac, 6,250 shares will vest on February 15 of each of 2018 and 2019.
- (14) Assuming continued employment with Intevac, 10,000 shares will become exercisable on May 21 of each of 2017 and 2018.
- (15) Assuming continued employment with Intevac, 5,000 shares will become exercisable on May 15 of each of 2017 and 2018.
- (16) Assuming continued employment with Intevac, 7,500 shares will become exercisable on May 19 of each of 2017, 2018, 2019 and 2020.
- (17) Assuming continued employment with Intevac, 3,750 shares will vest on May 15 of each of 2017, 2018, 2019 and 2020.
- (18) 19,545 shares vested on February 15, 2017.
- (19) Assuming continued employment with Intevac, 5,750 shares will become exercisable on May 9, 2017.
- (20) Assuming continued employment with Intevac, 6,750 shares will become exercisable on May 15 of each of 2017 and 2018.
- (21) Assuming continued employment with Intevac, 3,375 shares will vest on May 15 of each of 2017 and 2018.
- (22) Assuming continued employment with Intevac, 4,920 shares will vest on May 15, 2017.
- (23) 14,039 shares vested on February 15, 2017.
- (24) 11,250 shares became exercisable on January 16, 2017. Assuming continued employment with Intevac, 11,250 shares will become exercisable on January 16, 2018.
- (25) 1,875 shares vested on February 15, 2017. Assuming continued employment with Intevac, 1,875 shares will vest on February 15, 2018.
- (26) 12,853 shares vested on February 15, 2017.
- (27) 6,250 shares vested on January 3, 2017 when the IVAC stock closing price was \$8.00 or higher for three consecutive trading days. 6,250 shares vested on February 14, 2017 when the IVAC stock closing price was \$10.00 or higher for three consecutive trading days. Assuming continued employment with Intevac, 6,250 shares vest when the IVAC stock closing price is \$12.50 or higher for three consecutive trading days and 6,250 shares vest when the IVAC stock closing price is \$15.00 or higher for three consecutive trading days.
- (28) Assuming continued employment with Intevac, 3,500 shares will become exercisable on May 15 of each of 2017 and 2018.
- (29) Assuming continued employment with Intevac, 1,750 shares will vest on May 15 of each of 2017 and 2018.
- (30) Assuming continued employment with Intevac, 5,417 shares will become exercisable on May 21 of each of 2017 and 2018.
- (31) Assuming continued employment with Intevac, 2,708 shares will become exercisable on May 15 of each of 2017 and 2018.
- (32) Assuming continued employment with Intevac, 4,063 shares will become exercisable on May 19 of each of 2017, 2018, 2019 and 2020.
- (33) Assuming continued employment with Intevac, 2,031 shares will vest on May 15 of each of 2017, 2018, 2019 and 2020.
- (34) 12,500 shares vested on February 15, 2017.

Option Exercises and Stock Vested in 2016

The following table shows all stock options exercised and value realized upon exercise, and all stock awards that vested and the value realized upon vesting, for each NEO during fiscal 2016.

<u>Name of Executive Officer</u>	<u>Option Awards</u>		<u>Stock Awards</u>	
	<u>Number of Shares Acquired on Exercise (#)</u>	<u>Value Realized on Exercise (\$)</u>	<u>Number of Shares Acquired on Vesting (#) (1)</u>	<u>Value Realized on Vesting (\$) (2)</u>
Wendell Blonigan	—	—	45,434	201,842
James Moniz	—	—	11,250	49,950
Andres Brugal	—	—	22,940	102,522
Jay Cho	—	—	6,875	30,875
Christopher Smith	—	—	12,445	55,344

- (1) Of the amounts show in this column, Intevac withheld the following number of shares to cover tax withholding obligations: 15,603 shares for Mr. Blonigan; 4,095 shares for Mr. Moniz; 2,384 shares for Mr. Cho; 8,088 shares for Mr. Brugal and 4,496 shares for Mr. Smith.
- (2) The value realized equals the fair market value of Intevac common stock on the vesting date, multiplied by the number of shares that vested.

Potential Payments upon Termination or Change in Control

Severance Agreements

The Company entered into a severance agreement with Mr. Blonigan when he was hired in June 2013. The agreement terminates on the termination of Mr. Blonigan's employment with the Company. If the Company terminates Mr. Blonigan's employment for a reason other than cause (as such term is defined in the severance agreement) that also is not due to his death or disability, or if Mr. Blonigan resigns for good reason (as such term is defined in the agreement), Mr. Blonigan will receive as severance from the Company: (i) continuing payments of his base salary in effect on the date of the his termination for twelve months from the date of such termination, plus (ii) continuing payments of \$2,000 per month for twelve months from the date of such termination. The receipt of severance under the agreement is contingent upon: (i) Mr. Blonigan signing and not revoking a release of claims in favor of the Company, and (ii) Mr. Blonigan continued compliance with the terms of his confidentiality agreement entered into with the Company.

Change in Control Agreements

Pursuant to their hiring, the Company entered into a change of control agreement with both Mr. Cho in December 2013 and with Mr. Moniz in October 2014. As per the terms of the agreements, if within twelve months following a change in control (as such term is defined in the change in control agreement), the Company terminates the executive's employment for a reason other than cause (as such term is defined in the change in control agreement) or if the executive resigns for good reason (as such term is defined in the change in control agreement) (each, a "qualifying termination"), the executive will receive severance from the Company in the amount of twelve months of the executive's base salary in effect on the date of the executive's termination, payable at the Company's discretion either in a lump sum or at equal intervals over a period of time not longer than twelve months. In addition, all stock options and restricted stock units held by the executive shall have their vesting fully accelerated. The receipt of severance under the change in control agreement is contingent upon the executive signing and not revoking a release of claims in favor of the Company. Mr. Cho's and Mr. Moniz's change in control agreements expire upon the termination of their employment with the Company. The Company has not entered into change in control agreements with any other executives.

Excise Tax.

Under each of the Company's severance and change of control agreements in the event the severance payments and other benefits payable to an executive constitute "parachute payments" under Section 280G of the U.S. Internal Revenue Code and would be subject to the applicable excise tax, then the executive's severance benefits will be either (i) delivered in full or (ii) delivered to such lesser extent which would result in no portion of such benefits being subject to the excise tax, whichever results in the receipt by executive on an after-tax basis of the greatest amount of benefits.

Change in Control Acceleration

In the event of a change in control (as defined in Mr. Blonigan's offer letter) Mr. Blonigan will fully vest in and, if applicable, have the right to exercise, all of Mr. Blonigan's then-outstanding Company equity awards and, with respect to Company equity awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met.

As described above, pursuant to their change in control agreements, in the event of a qualifying termination within twelve months after a change in control (as defined in Mr. Cho's and Mr. Moniz's change of control agreements), then, subject to the execution and non-revocation of a release of claims in favor of the Company, Mr. Cho's and Mr. Moniz's then-outstanding Company equity awards and, with respect to Company equity awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met.

Estimated Payments Pursuant to Severance and Change in Control Agreements

The following table estimates potential payments upon termination as if our NEOs had terminated on December 31, 2016, in connection with a change in control or other termination covered by the severance and change in control agreements and potential payments relating to the changed vesting schedule of outstanding equity awards under our 2012 Equity Incentive Plan in connection with a change in control. The table reflects termination scenarios covered by the various agreements and the benefits receivable thereunder, as well as under our equity plans. The closing market price per share of our common stock on December 31, 2016 was \$8.55.

<u>Name of Executive Officer</u>	<u>Termination Without Cause or Resignation for Good Reason (\$)</u>	<u>Change in Control With Qualifying Termination (\$)</u>	<u>Change in Control Without Termination (\$)</u>
Base Salary			
Wendell Blonigan	500,000	500,000	—
James Moniz	—	315,000	—
Andres Brugal	—	—	—
Jay Cho	—	290,000	—
Christopher Smith	—	—	—
Annual Cash Incentive			
Wendell Blonigan	—	—	—
James Moniz	—	—	—
Andres Brugal	—	—	—
Jay Cho	—	—	—
Christopher Smith	—	—	—
Health Coverage			
Wendell Blonigan	24,000	24,000	—
James Moniz	—	—	—
Andres Brugal	—	—	—
Jay Cho	—	—	—
Christopher Smith	—	—	—

<u>Name of Executive Officer</u>	<u>Termination Without Cause or Resignation for Good Reason (\$)</u>	<u>Change in Control With Qualifying Termination (\$)</u>	<u>Change in Control Without Termination (\$)</u>
Acceleration Of Equity Awards			
Wendell Blonigan	—	2,486,832	2,486,832
James Moniz	—	749,523	—
Andres Brugal	—	—	—
Jay Cho	—	745,681	—
Christopher Smith	—	—	—
Total			
Wendell Blonigan	524,000	3,010,832	2,486,832
James Moniz	—	1,064,523	—
Andres Brugal	—	—	—
Jay Cho	—	1,035,681	—
Christopher Smith	—	—	—

Equity Incentive Plans

Under the 2012 Equity Incentive Plan and the 2004 Equity Incentive Plan, all unvested options, RSUs and other equity awards vest in full and, if applicable, become exercisable and performance-based awards would be deemed achieved at 100% of target upon a change in control (as defined in the applicable plan) of Intevac or, with respect to awards under the 2012 Equity Incentive Plan, a merger of Intevac with or into another corporation or entity, unless the option or award is assumed or substituted for by the acquiring entity, and to the extent exercisable, would terminate if not exercised within the applicable period.

The Board or its Compensation Committee, as administrator of the 2012 Equity Incentive Plan and the 2004 Equity Incentive Plan, has the authority to provide for the accelerated vesting of any or all outstanding equity awards under the 2012 Equity Incentive Plan and the 2004 Equity Incentive Plan, including options held by our directors and executive officers, under such circumstances and at such times as the Compensation Committee deems appropriate, including in the event of termination of the executive or a Change in Control of Intevac.

Compensation of Directors

The following table sets forth summary information concerning compensation paid or accrued for services rendered to the Company in all capacities to the members of the Company's Board for the fiscal year ended December 31, 2016, other than Wendell Blonigan, whose compensation is set forth under the Summary Compensation Table.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)(1)(2)(3)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
James D. Benham	45,000	—	18,197	—	—	—	63,197
Matthew A. Drapkin . . .	50,000	—	18,197	—	—	—	68,197
David S. Dury	59,000	—	18,197	—	—	—	77,197
Marc T. Giles	45,000	—	18,197	—	—	—	63,197
Norman H. Pond	65,000	—	18,197	—	—	—	83,197
Thomas M. Rohrs	45,000	—	18,197	—	—	—	63,197
John F. Schaefer	50,000	—	18,197	—	—	—	68,197

- (1) Amounts shown do not reflect compensation actually received by the director. Instead, the amounts shown are grant date fair value of awards granted during fiscal 2016 as determined pursuant to ASC 718. The assumptions used to calculate the value of option awards are set forth under Note 2 of the notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for fiscal 2016 filed with the SEC on February 15, 2017.
- (2) Reflects the fair value as of the grant date: \$18,197 for a stock option grant to purchase 13,000 shares of common stock made on May 19, 2016 at an exercise price of \$4.80 per share
- (3) The directors had options to purchase the following shares of common stock outstanding at December 31, 2016: Mr. Benham: 31,000 shares; Mr. Drapkin: 58,000 shares; Mr. Dury: 121,500 shares; Mr. Giles: 44,000 shares; Mr. Pond: 207,500 shares; Mr. Rohrs: 96,000 shares; and Mr. Schaefer: 96,000 shares.

Standard Director Compensation Arrangements

Intevac uses a combination of cash and equity compensation to attract and retain qualified candidates to serve on our Board. The Compensation Committee of the Board conducts an annual review of director compensation and, if appropriate, recommends any changes in the type or amount of compensation to the Board. In reviewing director compensation, the Compensation Committee takes into consideration the compensation paid to non-employee directors of comparable companies, including competitive non-employee director compensation data and analyses prepared by compensation consulting firms and the specific duties and committee responsibilities of particular directors. In addition, the Compensation Committee may make recommendations or approve changes in director compensation in connection with the Compensation Committee's administration and oversight of our 2012 Equity Incentive Plan. Any change in director compensation is approved by the Board.

Cash Compensation

Non-employee directors receive annual cash fees for service on the Board and its various committees. During 2016, each of Intevac's non-employee directors received a cash payment of \$11,250 per quarter for serving as a director; and Intevac's Chairman received an additional cash payment of \$5,000 per quarter for serving as the Chairman of the Board. Intevac's Lead Director received an additional cash payment of \$1,875 per

quarter for serving as the Lead Director. In addition, the Audit Committee Chair received an annual cash payment of \$6,500 for serving as the Audit Committee Chair, and the Compensation and Nominating and Governance Committee Chairs received annual cash payments of \$5,000 for serving as chairs of those respective committees. Directors do not receive cash compensation for attending meetings of the Board.

Equity Compensation

Our non-employee directors are eligible to receive grants of options to purchase shares of our common stock pursuant to our 2012 Equity Incentive Plan when and as determined by our Board. During fiscal 2016, Mr. Benham, Mr. Drapkin, Mr. Dury, Mr. Giles, Mr. Pond, Mr. Rohrs and Mr. Schaefer each received an option to purchase 13,000 shares under the 2012 Equity Incentive Plan.

During 2014, the Board established minimum ownership guidelines for Company common stock for directors. Directors must own stock in the Company of at least three times the annual retainer paid to independent directors (exclusive of any compensation for committee service such as meeting fees and leadership roles.) The ownership level must be initially achieved by the later of December 31, 2017 or by December 31 in the fourth year after the director is first elected. These ownership guidelines are applicable to all directors of the Company. In the event that a director also serves as an executive officer of the Company, the director will be subject to the same level of requirements as all directors.

Other Arrangements

Non-employee directors also have their travel, lodging and related expenses associated with attending Board or committee meetings and for participating in Board-related activities paid or reimbursed by Intevac.

Equity Compensation Plan Information

The following table summarizes the number of outstanding shares underlying options granted to employees and directors, as well as the number of securities remaining available for future issuance, under our equity compensation plans at December 31, 2016.

<u>Plan Category</u>	<u>(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans</u>
			(1)
Equity compensation plans approved by security holders (2)	3,689,819	\$7.00	1,377,757
Equity compensation plans not approved by security holders	—	\$ —	—
Total	<u>3,689,819</u>	\$7.00	<u>1,377,757</u>

(1) Excludes securities reflected in column (a).

(2) Included in the column (c) amount are 241,597 shares available for future issuance under our 2003 Employee Stock Purchase Plan.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the ownership of our common stock as of March 31, 2017, for each person or entity who is known by us to own beneficially more than 5% of the outstanding shares of our common stock, each of the NEOs in the 2016 Summary Compensation Table on page 48, each of our directors, and all directors and executive officers of Intevac as a group.

	<u>Total Number of Shares (2)</u>	<u>Common Stock</u>	<u>Rights to Acquire(3)</u>	<u>Percentage Beneficially Owned (4)</u>
Principal Stockholders, Executive Officers and Directors (1)				
5% Stockholders:				
First Eagle Investment Management, LLC (5)	4,983,381	4,983,381	—	23.3%
Royce and Associates. (6)	2,066,710	2,066,710	—	9.7%
NEOs:				
Wendell Blonigan	326,312	97,979	228,333	1.5%
James Moniz	95,206	33,956	61,250	*
Andres Brugal	168,578	40,783	127,795	*
Jay Cho	103,746	33,746	70,000	*
Christopher Smith	187,286	44,899	142,387	*
Directors:				
Norman H. Pond (7)	959,931	752,431	207,500	4.5%
James D. Benham	42,000	20,000	22,000	*
Matthew A. Drapkin (8)	1,045,621	1,000,621	45,000	4.9%
David S. Dury (9)	216,500	95,000	121,500	*
Marc T. Giles	64,000	20,000	44,000	*
Thomas M. Rohrs	110,000	14,000	96,000	*
John F. Schaefer	131,000	35,000	96,000	*
All directors and executive officers as a group (12 persons)	3,450,180	2,188,415	1,261,765	16.1%

* Less than 1%

- (1) Unless otherwise indicated in their respective footnote, the address for each listed person is c/o Intevac, Inc., 3560 Bassett Street, Santa Clara, CA 95054.
- (2) The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Exchange Act, and the information is not necessarily indicative of beneficial ownership for any other purpose. Unless otherwise indicated in the footnotes, each person or entity has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares shown as beneficially owned.
- (3) Includes any shares over which the individual or entity has the right to acquire within 60 days of March 31, 2017, through the exercise of any vested stock option and the vesting of performance shares and restricted stock units.
- (4) The total number of shares of Common Stock outstanding was 21,403,726 as of March 31, 2017.
- (5) The address of First Eagle Investment Management, LLC is 1345 Avenue of the Americas, New York, NY 10105. This information was obtained from a filing made with the SEC pursuant to Section 13(g) of the Exchange Act on February 6, 2017.
- (6) The address of Royce and Associates, LLC is 745 Fifth Avenue, New York, NY 10151. This information was obtained from a filing made with the SEC pursuant to Section 13(g) of the Exchange Act on January 11, 2017.
- (7) Includes 695,045 shares that Mr. Pond holds indirectly through various trusts with his spouse and 38,144 shares held in a limited partnership of which Mr. Pond is the general partner.

- (8) Includes 993,621 shares deemed beneficially owned indirectly by Mr. Drapkin who is a Managing Member of Northern Rights Capital (QP), L.P. Mr. Drapkin is a member of BC Advisors, LLC, which is the general partner of NRC Management (of which Mr. Drapkin is a limited partner), and NRC Management is the general partner of, and investment manager for, Northern Right Capital (QP), L.P.
- (9) Includes 66,000 shares that Mr. Dury holds indirectly through a trust with his spouse.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Review, Approval or Ratification of Related Person Transactions

In accordance with our Code of Business Conduct and Ethics and our Director Code of Ethics and the charter for the Audit Committee of the Board, our Audit Committee reviews and approves in advance in writing any proposed related person transactions. The most significant related person transactions, as determined by the Audit Committee, must be reviewed and approved in writing in advance by our Board. Any related person transaction will be disclosed in the applicable SEC filing as required by the rules of the SEC. For purposes of these procedures, “related person” and “transaction” have the meanings contained in Item 404 of Regulation S-K.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities to file with the SEC initial reports of ownership on Form 3, and reports of changes in ownership on Form 4 or Form 5, of our Common Stock and other equity securities. Officers, directors and greater than ten percent stockholders are required by SEC regulations to furnish Intevac with copies of all Section 16(a) forms they file.

Based solely upon review of the copies of such reports furnished to us and written representations that no other reports were required, we believe that during the fiscal year ended December 31, 2016, our officers, directors and holders of more than ten percent of our Common Stock complied with all Section 16(a) filing requirements.

AUDIT COMMITTEE REPORT

The primary role of the Audit Committee is to provide oversight and monitoring of Intevac's management and the independent registered public accounting firm and their activities with respect to Intevac's financial reporting process. In the performance of its oversight function, the Audit Committee has:

- reviewed and discussed the audited financial statements with BPM LLP and management;
- discussed with BPM LLP, Intevac's independent public accountants, the matters required to be discussed under the rules adopted by the Public Company Accounting Oversight Board ("PCAOB");
- received from BPM LLP the written disclosures and the letter from the independent auditors required by the applicable requirements of the PCAOB regarding BPM LLP's communications with the Audit Committee concerning independence, and has discussed with BPM LLP their independence; and
- considered whether the provision of services covered by Principal Accountant Fees and Services is compatible with maintaining the independence of BPM LLP.

Based upon the review and discussions described in this report, the Audit Committee recommended to the Board that the audited financial statements be included in Intevac's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Respectfully submitted by the members of the Audit Committee of the Board of Directors

David S. Dury (Chairman)

Marc T. Giles

Thomas M. Rohrs

OTHER BUSINESS

The Board of Directors knows of no other business that will be presented for consideration at the Annual Meeting. If other matters are properly brought before the Annual Meeting, however, it is the intention of the persons named in the accompanying proxy to vote the shares represented thereby on such matters in accordance with their best judgment.

BY ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in black ink that reads "James Moniz". The signature is written in a cursive style with a large, looping initial "J" and a distinct dot over the "i".

JAMES MONIZ
*Executive Vice President, Finance and
Administration, Chief Financial Officer
and Treasurer*

April 12, 2017

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

INTEVAC, INC.

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

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
(I.R.S. Employer Identification No.)

3560 Bassett Street
Santa Clara, California 95054
(Address of principal executive office, including Zip Code)

Registrant's telephone number, including area code: (408) 986-9888

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock (\$0.001 par value)	The Nasdaq Stock Market LLC (NASDAQ Global Select)

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

As of July 2, 2016, the aggregate market value of voting and non-voting stock held by non-affiliates of the Registrant was approximately \$101,863,142 (based on the closing price for shares of the Registrant's Common Stock as reported by the Nasdaq Stock Market for the last trading day prior to that date). Shares of Common Stock held by each executive officer and director have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On February 15, 2017, 21,390,336 shares of the Registrant's Common Stock, \$0.001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the Registrant's Proxy Statement for the 2017 Annual Meeting of Stockholders are incorporated by reference into Part III. Such proxy statement will be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information in this Annual Report on Form 10-K (report or Form 10-K) of Intevac, Inc. and its subsidiaries (“Intevac” or the “Company”), including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7, is forward-looking in nature. All statements in this report, including those made by the management of Intevac, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding Intevac’s future financial results, operating results, cash flows and cash deployment strategies, business strategies, costs, products, working capital, competitive positions, management’s plans and objectives for future operations, research and development, acquisitions and joint ventures, growth opportunities, customer contracts, investments, liquidity, declaration of dividends, and legal proceedings, as well as market conditions and industry trends. These forward-looking statements are based on management’s estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Forward-looking statements may contain words such as “may,” “will,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” and “continue,” the negative of these terms, or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in Item 1A, “Risk Factors,” below and elsewhere in this report. Other risks and uncertainties may be disclosed in Intevac’s prior Securities and Exchange Commission (“SEC”) filings. These and many other factors could affect Intevac’s future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this report or elsewhere by Intevac or on its behalf. Intevac undertakes no obligation to revise or update any forward-looking statements.

The following information should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in this report.

PART I

Item 1. *Business*

Overview

Intevac’s business consists of two reportable segments:

Thin-film Equipment: Intevac is a leader in the design and development of high-productivity, thin-film processing systems. Our production-proven platforms are designed for high-volume manufacturing of substrates with precise thin-film properties, such as the hard drive media, display cover panel (“DCP”), and solar photovoltaic (“PV”) markets we serve currently.

Photonics: Intevac is a leading developer of advanced high-sensitivity digital sensors, cameras and systems that primarily serve the defense industry. We are the provider of integrated digital night-vision imaging systems for the U.S. military.

Intevac was incorporated in California in October 1990 and was reincorporated in Delaware in 2007.

Thin-film Equipment Segment

Hard Disk Drive (“HDD”) Equipment Market

Intevac designs, manufactures, markets and services complex capital equipment used to deposit thin films and lubricants onto substrates to produce magnetic disks that are used in HDDs. Disk and disk drive manufacturers produce magnetic disks in a sophisticated manufacturing process involving many steps, including plating, annealing, polishing, texturing, sputtering, etching, stripping and lubrication. Intevac believes its systems represent approximately 60% of the installed capacity for disk sputtering worldwide. Intevac’s systems are used

by manufacturers of magnetic media such as Seagate Technology, Western Digital, including its wholly-owned subsidiary HGST, Fuji Electric, and Showa Denko.

HDDs are a primary storage medium for digital data including nearline “cloud” applications and are used in products and applications such as personal computers (“PCs”), enterprise data storage, video players and video game consoles. Intevac believes that HDD media shipments will grow over time, driven by continued high growth rates in digitally-stored data, by the slowing of areal density improvements, by the increase in demand for nearline drives for cloud storage, an increasing tie ratio (the average number of disks per hard drive) and by new and emerging applications. The projected growth rates for digitally-stored data on HDDs exceed the rate of areal density improvements, at the same time as the tie ratio is increasing, which results in demand for magnetic disks outpacing HDD units.

In recent years HDD media units have been negatively impacted by declining PC units, primarily caused as a result of the proliferation of tablets and the transition to centralized storage. Although the HDD industry continues to expect growth in the nearline data storage market segment, the transition to centralized storage combined with the negative growth in PC shipments has resulted in lower HDD shipments in recent years. However, Intevac continues to believe that long-term demand for hard disks required for high capacity HDDs will increase, driven by growth in demand for digital storage, a declining growth rate in areal density improvements, and increased information technology spending to support the transition to cloud storage. The number of disk manufacturing systems needed to support this growth as well as future technology transitions and improvements is expected to vary from year to year depending on the factors noted above.

Intevac expects that HDD manufacturers will extend their utilization of planar perpendicular media with the introduction of Heat Assisted Magnetic Recording (“HAMR”) expected within the next two to three years. The first HAMR-based HDDs are expected to ship to the marketplace by mid to late 2017. Intevac believes that leading manufacturers of magnetic media are using Intevac systems for HAMR development, creating a significant market opportunity as HAMR is more widely adopted. Significant market penetration of HAMR-based HDDs is expected to occur in mid to late 2018. Intevac believes that the transition to HAMR will require disk manufacturers to upgrade their installed base of equipment, which would result in increased demand for equipment technology upgrades to be performed by Intevac.

Display Cover Panel (“DCP”) Market

Intevac develops equipment to deposit optically transparent thin films onto DCPs typically found on consumer and automotive electronic products.

DCPs are found in products including smartphones, tablet PCs, wearable devices, gaming systems, digital cameras, automotive infotainment systems and digital signage. In 2016, approximately 1.5 billion mobile phones, 183 million tablet PCs and 102 million wearable devices were shipped to consumers worldwide. For smartphones alone, it is forecasted that nearly 1.9 billion units will ship by 2020, representing a CAGR of greater than 6% for the 2016 – 2020 time period.

The DCP is typically made of tempered glass, such as soda-lime or aluminosilicate, or other materials such as sapphire. The primary function of the DCP is to provide a clear protective interface to the display it protects. In many cases, the DCP is treated with various coatings to enhance its protective performance as well as for clarity, readability and touch sensitivity.

The types of coatings typically found on DCPs of electronic devices include: Scratch Protection (“SP”) coatings, Anti-Reflection (“AR”) coatings, and Anti-Finger (“AF”) coatings.

SP coatings generally consist of hard thin films deposited onto the surface of the DCP. Their primary function is to provide enhanced protection against the incidence of scratch, but they can also provide greater breakage resistance. SP coatings also improve the readability of displays.

AR coatings enable greater light transmission through the DCP by reducing the light reflected by the surface back to the user's eye. This allows the user to more easily read the display and reduces the required power needed to display the image which results in extending the battery life. A significant drawback to using AR coatings is their susceptibility to scratch. AR coatings are typically soft and must be applied to the outer surface of the DCP. These coatings generally scratch easily, and as such, smartphone manufacturers have been reluctant to implement AR coatings on their products.

AF coatings provide water and oil protection for the surface of the DCP. This coating, which prevents fingerprints, provides greater aesthetics as well as improving readability. AF coatings allow for greater visual acuity when fingerprints are not visible. The drawback to AF coatings is their relatively low resistance to wear. The coating is soft and usually wears off within a few months of product purchase.

Intevac has developed and is currently marketing a SP coating known as Optical Diamond-like-Carbon ("oDLC™") utilizing its production-proven carbon film technology that is also used on HDD media. This coating provides a hard protective layer which significantly improves the DCP's resistance to scratches and breakage. The scratch protection benefits with the oDLC coating has demonstrated a greater than 9 times improvement over current standard cover glass. Furthermore using a Ring-on-Ring ("RoR") test, cover glass with our oDLC coating provides a greater than 20 percent increase in breakage resistance strength over cover glass without the oDLC coating. Intevac expects that the adoption of AR coatings on mobile devices will create an increased need for SP coatings and provide a significant demand opportunity for oDLC.

Solar Market

Intevac designs, manufactures and markets capital equipment for the PV solar manufacturing industry.

A solar cell (also called a PV cell) is a solid state device that converts the energy of sunlight directly into electricity. Assemblies of cells are used to make solar modules, also known as solar panels. Solar panels have broad-based end market applications for utility-scale solar farms; integrated building PV arrays for commercial, retail, and offices; residential rooftop; and for portable devices.

The cost of electricity generated from solar energy, in many cases, remains higher than that of electricity generated from traditional energy sources. However, deployment of photovoltaics is gaining momentum on a worldwide scale, particularly in Asia, North America and other regions, where solar PV is now increasingly competitive with conventional energy sources. Grid parity, whereby solar PV generates power at a levelized cost of electricity ("LCOE") less than or equal to the price of power purchased from the electrical grid, has already been reached in about thirty countries. In countries or areas where the cost of solar energy generation remains higher than traditional electricity generation sources, some governments have implemented various tax credits and other financial incentives to promote the growth in solar and other alternative energy sources. As a result of solar energy costs having favorably declined due to the increased scale and improved manufacturing efficiencies spurred by these incentive policies, many governments have reduced or are planning to reduce their incentives for solar, a trend which is likely to continue. However, the United States Investment Tax Credit ("ITC") for solar which was due to expire by the end of 2016, has been extended through 2020 to continue the proliferation of solar generated energy in the United States. As of the beginning of 2016 twenty U.S. states had reached grid parity, and an additional twenty-two are poised to reach grid parity within this decade. More than 60 gigawatts of solar capacity was added globally in 2016. In mid-2016 the solar industry entered a downturn as utility-scale solar projects came under pricing pressure and retail deployments were below expectations as U.S. consumers delayed spending as a result of the extension of the ITC. Intevac expects that 2017 will continue to be challenging for the solar industry due to further declines in solar panel pricing, weaker panel demand and lower project activity.

The PV industry continues to focus on the development of high-efficiency cell technologies aimed at simultaneously boosting PV efficiency and reducing solar energy production costs. New vacuum process

technologies and integrated processing steps are expected to become increasingly important as companies search for lower-cost manufacturing solutions for PV cells.

Intevac offers products for wafer-based crystalline silicon (“c-Si”) solar cell manufacturing processes, the prevailing manufacturing process in the PV industry. Intevac’s products for the solar industry are specifically focused on cell designs with the highest energy conversion efficiency, which are within the n-type mono crystalline portion of the market.

Intevac offers thin-film vacuum process manufacturing solutions for c-Si cell fabrication applications. Intevac offers high-productivity process equipment solutions that enable low-cost solar cell manufacturing with high cell efficiency, consistent with the PV industry’s focus and requirements. Intevac has developed two vacuum process application technologies for solar cell manufacturing: one utilizes Physical Vapor Deposition (“PVD”) technology for the deposition of thin films onto c-Si wafers, and the other utilizes ion implantation, which selectively changes the electrical characteristics of the c-Si solar cell.

PVD is a process used in multiple ways in the manufacturing of solar cells such as for fabricating electrical contacts and conductor layers, depositing reflective layers of various types, and for growing transparent conductive oxide layers, all of which are critical to the efficiency of solar cells.

Ion implantation is a solar cell processing technology whereby an impurity is added to a PV structure to improve its conductivity. In ion implantation, a beam of ions of a desired dopant element such as phosphorus or boron is electrostatically accelerated and directed toward the target material, introducing the impurity. In a subsequent thermal annealing step, the dopant is electrically activated. The ion implant processes enable precision engineering of the dose and of the depth of dopant elements to form emitter structures in working solar cells. Ion implantation is a technique being introduced to solar cell lines as a means to lower the cost per watt to manufacture the cell. Ion implantation can replace existing diffusion processes in existing solar processing lines for present-day PV cell structures, and is also extendable to new advanced cell structures. In both cases, ion implant-formed emitters are created with fewer processing steps, and therefore at lower cost, than the diffusion processes implant displaces. Intevac’s ion implantation products are based upon technology developed by Solar Implant Technologies, Inc. (“SIT”) which was acquired by Intevac in November 2010.

Thin-Film Equipment Products

Intevac’s Thin-film Equipment product portfolio addressing each of these markets is based around common core technologies and competencies. Intevac believes its Thin-film Equipment product portfolio can be extended to support adjacent markets. Based on its history and market and technology leadership in the hard disk drive industry, Intevac offers superior high-productivity vacuum handling of small substrates at the lowest cost of ownership. Lowest cost of ownership includes various advantages such as high target utilization, high throughput, small footprint, double-sided coating, and reduced materials costs.

Product Table

The following table presents a representative list of the Thin-film Equipment products that we offered during fiscal 2016, fiscal 2015 and fiscal 2014.

<u>Thin Film Equipment Products</u>	<u>Applications and Features</u>
Hard Disk Drive Equipment Market	
200 Lean [®] Disk Sputtering System	<ul style="list-style-type: none">• Uses PVD and chemical vapor deposition (“CVD”) technologies.• Deposits magnetic films, non-magnetic films and protective carbon-based overcoats.• Provides high-throughput for small-substrate processing.• Over 150 units installed.
200 Lean Etch and Deposition System	<ul style="list-style-type: none">• Uses PVD and etch technologies.• For use in HAMR and patterned media development.
AccuLuber™ Disk Lubrication System	<ul style="list-style-type: none">• Deposits lubricants onto the hard disk’s surface to improve durability and reduce surface friction.• Lubricates disks while under vacuum.• Eliminates the environmentally hazardous use of solvents.
Upgrades, spares, consumables and services (non-systems business)	<ul style="list-style-type: none">• Upgrades to the installed base to support the continued growth in areal density or reduce the manufacturing cost per disk.
DCP Market	
INTEVAC VERTEX™ System	<ul style="list-style-type: none">• Utilizes vertical sputtering for multiple film types.• Provides high-throughput for small-substrate processing.• Uses leading target utilization technology.• Modular design enables expandability.• Enables low-temperature processing.
Solar PV Market	
INTEVAC MATRIX™ PVD System	<ul style="list-style-type: none">• Deposits electrical contacts and conductor layers, reflective layers, and transparent conductive oxide layers, all of which are critical to the efficiency of solar cells.• Includes patented Linear Scanning Magnetic Array (“LSMA”) magnetron source, with industry-leading target utilization rate of over 65 percent.• Provides high-throughput for small-substrate processing.
INTEVAC MATRIX Implant System	<ul style="list-style-type: none">• Utilizes the chambers and transport mechanism of the MATRIX platform while using the implant sources from the ENERGi system.
ENERGi™ Implant System	<ul style="list-style-type: none">• Supports both phosphorus and boron dopant technologies.• Extendable to new advanced solar cell structures.
Adjacent Markets	
INTEVAC MATRIX System	<ul style="list-style-type: none">• Incorporates multiple thin-film deposition techniques such as PVD and CVD.• Consists of high-speed linear transport.• Flexible design enables handling of various different small substrate sizes and shapes.• Performs double-sided coating within vacuum.

Photonics Segment

Photonics Market

Intevac Photonics develops, manufactures and sells compact, cost-effective, high-sensitivity digital-optical products for the capture and display of extreme low-light images. These products incorporate high resolution digital night-image sensors operating in the visible and near infrared (“NIR”) light spectrums and are based on Intevac’s proprietary EBAPS® (Electron Bombarded Active Pixel Sensor) technology.

Photonics products primarily address the high performance military night-vision market. Our products provide digital imagery in extremely low-light level conditions. Intevac provides these products for military aircraft including the U.S. Army AH-64 Apache Attack Helicopter and the F-35 Joint Strike Fighter. Additionally, the Company is developing applications to address ground vehicles, and soldier head-mounted and weapon-mounted applications.

Military Products

Intevac’s EBAPS sensors are incorporated into custom-designed cameras, modules and goggle products for high performance military applications. Intevac’s EBAPS sensors can be integrated at various levels with optics, electronics, software, and displays based upon customer specifications and requirements. Customization typically occurs in the areas of electronics, near-eye micro-displays, and mechanical packaging. Intevac’s products by application are:

Helicopter Pilotage

Intevac provides a night-vision camera with a 2.0 mega-pixel resolution EBAPS module which is turret-mounted on the Apache helicopter. The low-light level digital video is then viewable by the helicopter pilot on a Head-Mounted Display (“HMD”) enabling the pilot to have enhanced night vision and allowing the aircrew to view multiple aircraft-mounted sensor information. In addition the U.S. Navy has funded a High Resolution Digital Night Vision Goggle (“HRDG”) development program incorporating a 4.0 mega-pixel resolution EBAPS module for aviation applications. The initial HRDG prototypes were delivered to the U.S. Navy in 2016.

Fixed Wing Aircraft Pilotage

Intevac provides night-vision cameras with a 2.0 mega-pixel resolution EBAPS module which is integrated with the F-35 fighter pilot’s helmet and enables the pilot to have enhanced night vision incorporating navigational and tactical information.

Long-Range Target Identification

Intevac provides the Laser Illuminated Viewing and Ranging (“LIVAR®”) shortwave-infrared camera for long range military night time surveillance systems that can identify targets at distances of up to twenty kilometers. Photonics’ LIVAR camera is incorporated into long range target identification systems manufactured by a major defense contractor.

Soldier Mobility

Both the U.S. Army and Special Operations Command sponsored programs to develop binocular night-vision goggles incorporating digitally fused low-light level and thermal image sensors. Both head-mounted digital imaging systems will allow low-light level and thermal imagery to be viewed individually or to be overlaid. Our solution targets the fused night-vision monocular for U.S. Army ground forces, which is the program of record to replace analog night vision. We delivered our first demonstrator monocular to the Army in 2016, for evaluation of alternatives for the fused mobility vision program. We will be demonstrating not only superior night-vision capability, but the advantage of digital, such as zoom, information overlay, and wireless digital image transmission and reception.

Virtual Reality (“VR”), Simulation, and Wireless Weapon Sights

Intevac provides HMDs for applications in VR, simulation, training, and wireless weapon sights. The HMD is a near-eye, high definition, wide field of view micro-display system for portable viewing of video in military and commercial markets. Depending on the application, Intevac provides configuration choices that include monocular or binocular, mono or stereo video, and wired or wireless interfaces. Integral Inertial Measurement Units (“IMU”) are also offered.

Rifle Sight

Intevac provided EBAPS modules that were integrated by our customers into a weapon sight attached to weaponry, including rifles for night time aiming and targeting.

Commercial Products

Low-Light Cameras

Photonics’ MicroVista® product line of commercial compact and lightweight low-light Complementary Metal–Oxide–Semiconductor (“CMOS”) cameras provides high sensitivity in the ultraviolet, visible or NIR regions of the spectrum for use in industrial inspection, bio-medical and scientific applications. These cameras are primarily sold through distribution channels and to original equipment manufacturers.

Backlog

Intevac’s backlog of orders at December 31, 2016 was \$68.5 million, as compared to January 2, 2016 of \$51.2 million. Backlog at December 31, 2016 consisted of \$46.3 million of Thin-film Equipment backlog and \$22.2 million of Photonics backlog. Backlog at January 2, 2016 consisted of \$19.3 million of Thin-film Equipment backlog and \$31.8 million of Photonics backlog. Backlog at December 31, 2016 includes four 200 Lean systems, three PV implant systems and four PVD DCP coating systems. Backlog at January 2, 2016 includes one PV deposition system, two PV implant systems and one PVD DCP coating system. Backlog includes only customer orders with scheduled delivery dates.

Customer Concentration

Historically, a significant portion of Intevac’s revenue in any particular period has been attributable to sales to a limited number of customers.

The following customers accounted for at least 10 percent of Intevac’s consolidated net revenues in fiscal 2016, 2015, and 2014.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Seagate Technology	34%	22%	15%
U.S. Government	22%	26%	32%
Elbit Systems of America	10%	*	*
HGST	*	15%	17%

* Less than 10%

Intevac expects that sales of Intevac’s products to relatively few customers will continue to account for a high percentage of Intevac’s revenues in the foreseeable future.

Foreign sales accounted for 48% of revenue in fiscal 2016, 35% of revenue in fiscal 2015, and 21% of revenue in fiscal 2014. The majority of Intevac’s foreign sales are to companies in Asia or to U.S. companies for

use in their Asian manufacturing or development operations. Intevac anticipates that foreign sales will continue to be a significant portion of Intevac's Thin-film Equipment revenues. Intevac's disk sputtering equipment customers include magnetic disk manufacturers, such as Fuji Electric and Showa Denko, and vertically integrated HDD manufacturers, such as Seagate, Western Digital and HGST. Intevac's PV solar equipment customers include solar panel manufacturers, such as First Solar and SunPower. Intevac's DCP equipment customers include DCP manufacturers, such as Truly Opto-electronics. Intevac's customers' manufacturing facilities are primarily located in California, China, Taiwan, Japan, Malaysia and Singapore.

Competition

The principal competitive factors affecting the markets for Intevac Thin-film Equipment products include price, product performance and functionality, ease of integration, customer support and service, reputation and reliability. Intevac has one major competitor, Canon Anelva, in the hard disk drive equipment market and has historically experienced intense worldwide competition for magnetic disk sputtering equipment. Intevac primarily faces competition from large established global competitors in the PV equipment market including Applied Materials, Centrotherm Photovoltaics, Amtech, Jusung and Von Ardenne. Intevac faces competition in the DCP market from glass manufacturers that may develop scratch resistant glass, from touchscreen manufacturers that may adopt harder substrate materials, or from other equipment companies, chemical companies or the display cover plate manufacturers themselves that may offer competing protective coatings including oDLC. These competitors generally have substantially greater financial, technical, marketing, manufacturing and other resources as compared to Intevac. Furthermore, any of Intevac's competitors may develop enhancements to, or future generations of, competitive products that offer superior price or performance features. In addition, new competitors, with enhanced products may enter the markets that Intevac currently serves.

The principal competitive factors affecting Photonics products include price, extreme low-light level detection performance, power consumption, resolution, size, ease of integration, reliability, reputation and customer support and service. Intevac faces substantial competition for Photonics products, and many competitors have substantially greater resources and brand recognition. In the military market, Harris Corporation and L-3 Communications are large and well-established defense contractors and are the primary U.S. manufacturers of analog image intensifier tubes used in Generation-III night-vision devices and their derivative products. Intevac expects that other companies will develop digital night-vision products and aggressively promote their sales. Within the near-eye display market, Intevac also currently faces competition from Rockwell-Collins, Kopin and Six 15 Technologies in the defense space and anticipates that in the future it will experience competition from lower performance, niche commercial HMD providers expanding into defense applications, all of which can offer cost-competitive products.

Marketing and Sales

Thin-film Equipment sales are made primarily through Intevac's direct sales force. Intevac also sells its products through distributors in Japan and China. The selling process for Intevac's Thin-film Equipment products is multi-level and lengthy, involving individuals from marketing, engineering, operations, customer service and senior management.

Installing and integrating new equipment requires a substantial investment by a customer. Sales of Intevac's systems depend, in significant part, upon the decision of a prospective customer to replace obsolete equipment or to increase manufacturing capacity by upgrading or expanding existing manufacturing facilities or by constructing new manufacturing facilities, all of which typically involve a significant capital commitment. Intevac's systems have a lengthy sales cycle, during which Intevac may expend substantial funds and management time and effort with no assurance that a sale will result.

The production of large complex systems requires Intevac to make significant investments in inventory both to fulfill customer orders and to maintain adequate supplies of spare parts to service previously shipped systems.

Intevac maintains inventories of spare parts in the United States, Singapore, Malaysia and China to support its Thin-film Equipment customers. Intevac often requires its Thin-film Equipment customers to pay for systems in three installments, with a portion of the system price billed upon receipt of an order, a portion of the price billed upon shipment, and the balance of the price and any sales tax due upon completion of installation and acceptance of the system at the customer's factory.

Intevac provides process and applications support, customer training, installation, start-up assistance and post-installation service support to Intevac's Thin-film Equipment customers. Intevac has field offices in Singapore, China, and Malaysia to support Intevac's customers in Asia.

Warranties for Intevac's Thin-film Equipment products typically range between 12 and 24 months from customer acceptance. During the warranty period any necessary non-consumable parts are supplied and installed without charge.

Sales of Photonics products for military applications are primarily made to the end user through Intevac's direct sales force. Intevac sells to the U.S. government and to leading defense contractors such as Lockheed Martin Corporation, Northrop Grumman Corporation, Elbit Systems of America, Raytheon, DRS Technologies, BAE and Safran Electronics and Defense.

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

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

Research and Development and Intellectual Property

Intevac's long-term growth strategy requires continued development of new products. Intevac works closely with Intevac's customers to design products that meet their planned technical and production requirements. Product development and engineering organizations are located primarily in the United States and Singapore.

Intevac invested \$18.2 million (22.7% of net revenue) in fiscal 2016, \$15.7 million (20.8% of net revenue) in fiscal 2015, and \$15.8 million (24.2% of net revenue) in fiscal 2014 for product development and engineering programs to create new products and to improve existing technologies and products. Intevac has spent an average of 27.4% of net revenues on product development and engineering over the last five years.

Intevac's competitive position significantly depends on Intevac's research, development, engineering, manufacturing and marketing capabilities, and not just on Intevac's patent position. However, protection of Intevac's technological assets by obtaining and enforcing intellectual property rights, including patents, is important. Therefore, Intevac's practice is to file patent applications in the United States and other countries for inventions that Intevac considers important. Although Intevac does not consider Intevac's business materially dependent upon any one patent, the rights of Intevac and the products made and sold under Intevac's patents along with other intellectual property, including trademarks, know-how, trade secrets and copyrights, taken as a whole, are a significant element of Intevac's business.

Intevac enters into patent and technology licensing agreements with other companies when management determines that it is in Intevac's best interest to do so. Intevac pays royalties under existing patent license agreements for use of certain patented technologies in several of Intevac's products. Intevac also receives, from time to time, royalties from licenses granted to third parties. Royalties received from or paid to third parties have not been material to Intevac's consolidated results of operations.

In the normal course of business, Intevac periodically receives and makes inquiries regarding possible patent infringements. In dealing with such inquiries, it may be necessary or useful for us to obtain or grant licenses or other rights. However, there can be no assurance that such licenses or rights will be available to us on commercially reasonable terms, or at all. If Intevac is not able to resolve or settle claims, obtain necessary licenses and/or successfully prosecute or defend Intevac's position, Intevac's business, financial condition and results of operations could be materially and adversely affected.

Manufacturing

Intevac manufactures its Thin-film Equipment products at its facilities in California and Singapore. Intevac's Thin-film Equipment manufacturing operations include electromechanical assembly, vacuum processing, fabrication of sputter sources, and system assembly, alignment and testing.

Photonics products are manufactured at Intevac's facilities in California. Photonics manufactures sensors, cameras, integrated camera systems, and near-eye display systems using advanced manufacturing techniques and equipment. Intevac's operations include vacuum processing, and electromechanical and optical system assembly.

Employees

At December 31, 2016, Intevac had 286 employees, including 14 contract employees.

Compliance with Environmental Regulations

Intevac is subject to a variety of governmental regulations relating to the use, storage, discharge, handling, emission, generation, manufacture, treatment and disposal of toxic or otherwise hazardous substances, chemicals, materials or waste. Intevac treats the cost of complying with government regulations and operating a safe workplace as a normal cost of business and allocates the cost of these activities to all functions, except where the cost can be isolated and charged to a specific function. The environmental standards and regulations promulgated by government agencies in California and Singapore are rigorous and set a high standard of compliance. Intevac believes its costs of compliance with these regulations and standards are comparable to other companies operating similar facilities in these jurisdictions.

Executive Officers of the Registrant

Certain information about our executive officers as of February 15, 2017 is listed below:

<u>Name</u>	<u>Age</u>	<u>Position</u>
<i>Executive Officers:</i>		
Wendell T. Blonigan	55	President and Chief Executive Officer
James Moniz	59	Executive Vice President, Finance and Administration, Chief Financial Officer and Treasurer
Andres Brugal	59	Executive Vice President and General Manager, Photonics
Jay Cho	52	Executive Vice President and General Manager, Thin-Film Equipment
Christopher Smith	57	Vice President, Business Development
<i>Other Key Officers:</i>		
Babak Adibi	62	Vice President and General Manager, Solar Implant
Verle Aebi	62	Chief Technology Officer, Photonics
Terry Bluck	57	Vice President, Chief Technology Officer, Thin-film Equipment
Kimberly Burk	51	Vice President, Global Human Resources
Timothy Justyn	54	Senior Vice President of Global Operations

Mr. Blonigan joined Intevac in July 2013 as President and Chief Executive Officer. Prior to joining Intevac, Mr. Blonigan co-founded Orbotech LT Solar in 2009 and served as the company's Chief Executive Officer until 2013. From 2006 until 2009, he was the Chief Operating Officer at Photon Dynamics, Inc. In 1991, Mr. Blonigan joined Applied Materials' AKT display subsidiary. During his tenure at AKT, he held various positions. In 2003, he was appointed President and served in this role until 2006; from 1999 through 2003 he was Vice President, and prior to that time he was Director of Engineering and New Product Development. Mr. Blonigan holds a BS in electronic engineering technology from DeVry University Missouri Institute of Technology.

Mr. Moniz joined Intevac as Executive Vice President, Finance and Administration, Chief Financial Officer and Treasurer in November 2014. Mr. Moniz previously served as the Chief Financial Officer of Nanometrics, Inc. from 2009 until his retirement in 2011. During 2008, Mr. Moniz was the Chief Financial Officer at Photon Dynamics, Inc. From 2000 until 2008, Mr. Moniz served as the Chief Financial Officer at Nextest Systems Corporation. Prior to Nextest, Mr. Moniz held senior financial management positions at Millennia Vision Corporation, Lockheed Martin Corporation, Loral Corporation and Varian Associates. Mr. Moniz holds an MBA, a BS in accounting and a BS in marketing from San Jose State University.

Mr. Brugal joined Intevac as Executive Vice President and General Manager, Photonics in January 2012. Before joining Intevac, Mr. Brugal was employed at Vision Systems International, a joint venture between Rockwell Collins and Elbit Systems of America, from 2006 to 2012, serving as President and Chief Executive Officer from April 2007 to January 2012. From 2005 to 2006, Mr. Brugal was employed as a consultant for DRS Technologies, a subsidiary of Finmeccanica SPA. Mr. Brugal retired from active service with the U.S. Navy in October 2005 with the rank of Captain. Mr. Brugal holds an MS in strategic studies and security affairs from the U.S. Naval War College and a BS in general engineering from the U.S. Naval Academy.

Mr. Cho joined Intevac in January 2014 and currently serves as Executive Vice President and General Manager, Thin-Film Equipment. Prior to joining Intevac, Mr. Cho was President, Chief Executive Officer and Co-Founder of REEnewal Corporation. From 2006 to 2011, Mr. Cho served as Vice President / General Manager of the Tester and Repair Business Units of Orbotech LTD. From 2005 to 2006, Mr. Cho served as Vice President, Product Development at Metara Inc. From 1992 to 2005, Mr. Cho held various management positions at Novellus Systems, Inc. Prior to Novellus, Mr. Cho worked for Digital Equipment Corporation and Intermec Corporation. Mr. Cho holds a BS in electrical engineering from Washington State University and an MBA from University of Phoenix.

Mr. Smith joined Intevac in August 2010 and currently serves as Vice President, Business Development. Prior to joining Intevac, Mr. Smith served as Senior Vice President Sales and Customer Support at Oerlikon Solar, from November 2007 to August 2010. From 2006 to 2007 he served as Senior Vice President of Sales and Service with Cymer. Previously, Mr. Smith was employed by Applied Materials from 1994 to 2006. While at Applied Materials he held a variety of executive-level customer support and operations positions. He also served as product business group general manager for Chemical Mechanical Polishing and was managing director of Global Business Development for the Dielectric and Physical Vapor Deposition Product Business Groups. Mr. Smith earned his BS in Business Administration / Material Management from San Jose State University.

Dr. Adibi joined Intevac in November 2010 as Vice President and General Manager, Solar Implant. Prior to joining Intevac, Dr. Adibi was President, Chief Technology Officer and Co-Founder of Solar Implant Technologies. Prior to founding Solar Implant Technologies, Dr. Adibi worked for Silicon Genesis Corporation from 2006 to 2008 as the General Manager of the Solar Equipment Division. From 2003 to 2006 he served as Vice President in the Laser Annealing Product Division of Ultratech. Previously, Dr. Adibi was employed by Applied Materials from 1985 to 2003. While at Applied Materials he held a variety of executive-level engineering positions. Dr. Adibi holds numerous patents in the area of ion implantation, a PhD in ion implantation and semiconductors and a MS in nuclear power from Surrey University in England and a BS in physics from the Imperial College of London.

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

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

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

Mr. Justyn has served as Senior Vice President of Global Operations from February 2015. Mr. Justyn served as Vice President, Photonics from October 2008 to February 2015. Mr. Justyn served as Vice President, Thin-film Equipment Manufacturing from April 1997 to October 2008. Mr. Justyn joined Intevac in February 1991 and has served in various roles in our Thin-film Equipment Products Division and our former night-vision business. Mr. Justyn holds a BS in chemical engineering from the University of California, Santa Barbara.

Available Information

Intevac's website is <http://www.intevac.com>. Intevac makes available free of charge, on or through its website, its annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with, or furnishing them to, the SEC. This website address is intended to be an inactive textual reference only and none of the information contained on Intevac's website is part of this report or is incorporated by reference herein.

Trademarks

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

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 Photovoltaic ("PV") equipment market, Intevac faces competition from large established competitors including Applied Materials, Centrotherm Photovoltaics, Amtech, Jusung 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, cyclicity 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 or 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.

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 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Intevac maintains its corporate headquarters in Santa Clara, California. The location, approximate size and type of facility of the principal properties are listed below. Intevac leases all of its properties and does not own any real estate.

<u>Location</u>	<u>Square Footage</u>	<u>Principal Use</u>
Santa Clara, CA	169,583	Corporate Headquarters; Thin-film Equipment and Photonics Marketing, Manufacturing, Engineering and Customer Support
Carlsbad, CA	10,360	Photonics Micro Display Product Manufacturing
Singapore	31,947	Thin-film Equipment Manufacturing and Customer Support
Malaysia	1,291	Thin-film Equipment Customer Support
Shenzhen, China	2,568	Thin-film Equipment Customer Support

Intevac considers these properties adequate to meet its current and future requirements. Intevac regularly assesses the size, capability and location of its global infrastructure and periodically makes adjustments based on these assessments.

Item 3. *Legal Proceedings*

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

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

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

Price Range of Common Stock

Intevac common stock is traded on The Nasdaq Stock Market (NASDAQ Global Select) under the symbol "IVAC." As of February 15, 2017, there were 94 holders of record. In fiscal years 2016 and 2015, Intevac did not declare or pay cash dividends to its stockholders. Intevac currently has no plans to declare or pay cash dividends.

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

	<u>High</u>	<u>Low</u>
Fiscal 2016:		
First Quarter	\$5.08	\$4.21
Second Quarter	5.74	4.35
Third Quarter	6.25	5.49
Fourth Quarter	8.55	5.65
Fiscal 2015:		
First Quarter	\$7.23	\$6.13
Second Quarter	6.14	4.80
Third Quarter	6.02	4.55
Fourth Quarter	5.34	4.49

Recent Sales of Unregistered Securities

None.

Item 6. Selected Financial Data

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

	Fiscal Year ⁽¹⁾				
	2016	2015	2014	2013	2012
	(in thousands, except per share data)				
Net revenues	\$ 80,124	\$75,160	\$ 65,550	\$ 69,632	\$ 83,424
Gross profit	\$ 30,409	\$26,317	\$ 17,433	\$ 21,973	\$ 34,158
Operating loss	\$ (7,563)	\$ (8,738)	\$ (19,354)	\$ (17,823)	\$ (42,533)
Net loss	\$ (7,441)	\$ (9,166)	\$ (27,445)	\$ (15,696)	\$ (55,319)
Loss per share:					
Basic and Diluted	\$ (0.36)	\$ (0.41)	\$ (1.16)	\$ (0.66)	\$ (2.37)
At year end:					
Total assets	\$108,324	\$97,681	\$120,275	\$148,276	\$172,503

¹ On February 19, 2014, the Board of Directors of the Company approved the Company's change to a 52-53 week fiscal year ending on the Saturday nearest to December 31 of each year in order to improve the alignment of financial and business processes and to streamline financial reporting. Each fiscal quarter consists of 13 weeks, with an occasional fourth quarter extending to 14 weeks, if necessary, for the fiscal year to end on the Saturday nearest to December 31. The Company's fiscal 2016, fiscal 2015 and fiscal 2014 years ended on December 31, 2016, January 2, 2016 and on January 3, 2015, respectively.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis (MD&A) is intended to facilitate an understanding of Intevac's business and results of operations. This MD&A should be read in conjunction with Intevac's Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included elsewhere in this Form 10-K. The following discussion contains forward-looking statements and should also be read in conjunction with the cautionary statement set forth at the beginning of this Form 10-K. MD&A includes the following sections:

- *Overview*: a summary of Intevac's business, measurements and opportunities.
- *Results of Operations*: a discussion of operating results.
- *Liquidity and Capital Resources*: an analysis of cash flows, sources and uses of cash, contractual obligations and financial position.
- *Critical Accounting Policies*: a discussion of critical accounting policies that require the exercise of judgments and estimates.

Overview

Intevac 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 HDD, DCP, and solar cell industries. Intevac also provides sensors, cameras and systems for government applications such as night vision and long-range target identification. 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. Effective in the first quarter of 2015, Intevac renamed the Equipment segment Thin-film Equipment.

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.

Fiscal Year	2016	2015	2014	Change	Change
	(in thousands, except percentages and per share amounts)			2016 vs. 2015	2015 vs. 2014
Net revenues	\$80,124	\$75,160	\$ 65,550	\$4,964	\$9,610
Gross profit	30,409	26,317	17,433	4,092	8,884
Gross margin percent	38.0%	35.0%	26.6%	3.0 points	8.4 points
Operating loss	(7,563)	(8,738)	(19,354)	1,175	10,616
Net loss	(7,441)	(9,166)	(27,445)	1,725	18,279
Net loss per diluted share	\$ (0.36)	\$ (0.41)	\$ (1.16)	\$ 0.05	\$ 0.75

Fiscal 2014 financial results reflected a challenging environment. In the HDD industry media unit shipments grew slightly year over year, reversing a downward trend over the last few years and PC sales increased. These are primary drivers for demand for our HDD manufacturing equipment. During fiscal 2014, our HDD customers' media production capacity continued to exceed demand, which limited the near-term demand for our 200 Lean systems. The Company shipped only two 200 Lean systems to HDD manufacturers during 2014. In 2014 the PV market also improved as increased consumer demand for solar panels began to offset a global oversupply of production capacity experienced by solar cell manufacturers. In 2014, Intevac executed on its diversification strategy to enter into new and adjacent markets by introducing new products and shipped the first MATRIX PVD system for solar cell manufacturing and the first VERTEX coating system for DCPs. In fiscal 2014, Photonics business levels increased as Photonics delivered large scale production shipments of the pilot night-vision systems for the Apache helicopter. The fiscal 2014 net loss reflected lower net revenues, lower gross margins, lower operating expenses and higher income tax expenses from the establishment of a \$9.4 million deferred tax valuation allowance on the deferred tax assets in Singapore. Fiscal 2014 operating expenses reflected savings from cost reduction initiatives which were implemented in the first half of fiscal 2014, offset in part by increased costs associated with a contested Board of Directors election. During fiscal 2014, as part of an effort to lower cash expenditures but to continue to reward employees for their hard work, the Company modified certain executive incentive variable compensation programs to be settled in restricted stock units with a one year vesting and as a result recorded lower variable compensation expense. During fiscal 2014, the Company did not recognize an income tax benefit on the U.S. and Singapore net operating losses.

Fiscal 2015 financial results reflected a continued challenging environment. In the HDD industry media unit shipments declined year over year and PC sales decreased. PC sales were negatively impacted by price increases in Asian markets as a result of a stronger U.S. dollar against Asian currencies. During fiscal 2015, our HDD customers' media production capacity continued to exceed demand, which limited the near-term demand for our 200 Lean systems. The Company shipped only one 200 Lean system to a HDD manufacturer during 2015. In 2015 the PV market continued to improve as global solar panel installations increased 33% over the previous year. In 2015, Intevac continued to execute on its diversification strategy to enter into new and adjacent markets and revenue recognized the first MATRIX PVD system for solar cell manufacturing and the first VERTEX coating system for DCPs. Intevac also received new customer system orders for VERTEX coating systems for DCPs and MATRIX tools for both solar metallization and implant. In fiscal 2015, Photonics business levels decreased as both Photonics' product sales and Photonics' contract research and development ("R&D") declined. The fiscal 2015 net loss reflected higher net revenues, higher gross margins and lower operating expenses. Fiscal 2015 operating expenses reflected savings from cost reduction initiatives which were implemented in the first half of fiscal 2015. During fiscal 2015, as part of a continued effort to lower cash expenditures, the Company settled certain executive incentive variable compensation programs with restricted stock units with a one year vesting. During fiscal 2015, the Company did not recognize an income tax benefit on the U.S. and Singapore net operating losses.

Fiscal 2016 financial results reflected an improved environment. In 2016 the HDD industry began to show signs of improvement as media unit shipments and PC sales increased in the second half of the year. Intevac revenue recognized four 200 Lean systems with an additional four in backlog at the end of the year as one of our HDD customers upgraded the technology level of its manufacturing capacity. In 2016 Intevac gained traction with its entry into the DCP market and booked its first production capacity order. In 2016, Intevac recognized revenue on one VERTEX coating system for DCPs and shipped an additional four VERTEX systems that are undergoing installation and acceptance testing. In 2016 the PV market showed signs of stress as utility-scale solar projects came under pricing pressure and retail deployments were below expectations as U.S. consumers delayed spending as a result of the extension of the ITC. In 2016, Intevac recognized revenue on one MATRIX PVD system and one implant system for solar cell manufacturing and shipped an additional two Energi implant systems that are undergoing installation and acceptance testing. In fiscal 2016, Photonics business levels were at similar levels compared to the prior year as increased Photonics' product sales were offset by lower Photonics' contract R&D. The fiscal 2016 net loss reflected higher net revenues and higher gross margins, offset in part by higher operating expenses as the Company made incremental R&D investments in both its business units. During

fiscal 2016, as part of a continued effort to lower cash expenditures, the Company settled certain executive incentive variable compensation programs with restricted stock units with a one year vesting. During fiscal 2016, the Company did not recognize an income tax benefit on the U.S. and Singapore net operating losses.

Given the momentum we have built in our business, we believe that we are currently on the path to profitability in fiscal 2017. Intevac expects that HDD equipment sales will be approximately at the same levels as 2016 as a HDD manufacturer takes delivery of the four 200 Lean systems in backlog. In 2017, Intevac expects higher sales of new Thin-film Equipment products as Intevac revenue recognizes the four VERTEX coating systems and two Energi implant systems that are currently undergoing installation activities at our customer sites and the one solar PVD MATRIX tool 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.

Results of Operations

Net revenues

	Fiscal Year			Change 2016 vs. 2015	Change 2015 vs. 2014
	2016	2015	2014		
	(in thousands)				
Thin-film Equipment	\$45,253	\$39,622	\$25,290	\$ 5,631	\$14,332
Photonics					
Products	29,089	28,450	29,173	639	(723)
Contract R&D	5,782	7,088	11,087	(1,306)	(3,999)
	<u>34,871</u>	<u>35,538</u>	<u>40,260</u>	<u>(667)</u>	<u>(4,722)</u>
Total net revenues	<u>\$80,124</u>	<u>\$75,160</u>	<u>\$65,550</u>	<u>\$ 4,964</u>	<u>\$ 9,610</u>

Net revenues consist primarily of sales of equipment used to manufacture thin-film disks, PV cells, DCPs and related equipment and system components; sales of low-light imaging products; and revenue from contract R&D related to the development of electro-optical sensors, cameras and systems.

The increase in Thin-film Equipment revenues in fiscal 2016 versus fiscal 2015 was due primarily to revenue recognized on four 200 Lean systems, one solar implant ENERGi system, one VERTEX coating system for DCPs and a MATRIX PVD system, offset in part by a decrease in revenue recognized on technology upgrades and spare parts. The increase in Thin-film Equipment revenues in fiscal 2015 versus fiscal 2014 was due primarily to revenue recognized on new PVD solar and DCP equipment including the first MATRIX PVD system and the first VERTEX coating system for DCPs as well as an increase in revenue recognized on technology upgrades and spare parts. Thin-film Equipment revenues in fiscal 2014 reflected lower revenue recognized on technology upgrades and spare parts. Intevac delivered four 200 Lean systems in 2016 compared to one 200 Lean system in fiscal 2015 and compared to two 200 Lean systems in fiscal 2014.

Photonics revenues decreased by 1.9% to \$34.9 million in fiscal 2016 versus fiscal 2015 and decreased by 11.7% to \$35.5 million in fiscal 2015 versus fiscal 2014. Contract R&D revenue in fiscal 2016, fiscal 2015 and fiscal 2014 decreased sequentially as a result of a lower volume of contracts. In fiscal 2014 Intevac completed its major R&D contract with the U.S. Army to develop a pilot night-vision system for the Apache helicopter.

Photonics product revenue increased in fiscal 2016 versus fiscal 2015 due to increased shipments of night-vision camera modules for the F35 Joint Strike Fighter program, offset in part by lower shipments and lower average sales prices for the Apache pilot night-viewing camera. Photonics product revenue decreased in fiscal 2015 as a result of lower average sales prices for the Apache pilot night-viewing camera. Photonics product revenue in fiscal 2014 reflected the transition to large scale production deliveries for the Apache pilot night-viewing camera.

In 2017, Photonics revenue is expected to be about the same level as in 2016. Substantial growth in future Photonics revenues is dependent on the proliferation of Intevac's technology into major military programs, continued defense spending, the ability to obtain export licenses for foreign customers and obtaining production subcontracts for these programs.

Backlog

	<u>December 31, 2016</u>	<u>January 2, 2016</u>
	(in thousands)	
Thin-film Equipment	\$46,283	\$19,337
Photonics	<u>22,244</u>	<u>31,833</u>
Total backlog	<u>\$68,527</u>	<u>\$51,170</u>

Thin-film Equipment backlog at December 31, 2016 includes four 200 Lean systems, four PVD coating systems for DCPs and three PV implant systems. Thin-film Equipment backlog at January 2, 2016 includes one PV deposition system, one PVD coating system for DCPs and two PV implant systems.

Significant portions of Intevac's revenues in any particular period have been attributable to sales to a limited number of customers. The following customers accounted for at least 10 percent of Intevac's consolidated net revenues in fiscal 2016, 2015, and 2014.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Seagate Technology	34%	22%	15%
U.S. Government	22%	26%	32%
Elbit Systems of America	10%	*	*
HGST	*	15%	17%

* Less than 10%

Revenue by geographic region

	<u>Fiscal Year</u>			<u>Change 2016 vs. 2015</u>	<u>Change 2015 vs. 2014</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>		
	(in thousands)				
United States	\$42,048	\$49,034	\$51,584	\$ (6,986)	\$ (2,550)
Asia	37,143	23,855	9,931	13,288	13,924
Europe	933	2,271	4,035	(1,338)	(1,764)
Total net revenues	<u>\$80,124</u>	<u>\$75,160</u>	<u>\$65,550</u>	<u>\$ 4,964</u>	<u>\$ 9,610</u>

International sales include products shipped to overseas operations of U.S. companies. The decrease in sales to the U.S. region in 2016 versus 2015 was primarily due to no shipments of 200 Leans to factories in the U.S. compared to one 200 Lean delivered to a U.S. factory in 2015 and lower contract R&D, offset in part by revenue recognized on one MATRIX PVD system. The decrease in sales to the U.S. region in 2015 versus 2014 was primarily due to lower average sales prices for the Apache pilot night-viewing camera.

The increase in sales to the Asia region in 2016 versus 2015 was primarily due to increased equipment sales including four 200 Lean systems, one solar implant ENERGi system and one VERTEX coating system for DCPs, offset in part by a decrease in revenue recognized on technology upgrades and spare parts. The increase in sales to the Asia region in 2015 versus 2014 was primarily due to the sale of the first MATRIX PVD system for solar panels, the sale of the first VERTEX coating system for DCPs and higher sales of technology upgrades to disk manufacturers.

The decrease in sales to the Europe region in 2016 versus 2015 and in 2015 versus 2014 was primarily due to lower sales of Photonics' digital night-vision cameras to a NATO customer. This contract ended in fiscal 2015.

Gross margin

	<u>Fiscal Year</u>			<u>Change</u>	<u>Change</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 vs. 2015</u>	<u>2015 vs. 2014</u>
	(in thousands, except percentages)				
Thin-film Equipment gross profit	\$14,847	\$12,852	\$ 167	\$1,995	\$12,685
% of Thin-film Equipment net revenues	32.8%	32.4%	0.7%		
Photonics gross profit	\$15,562	\$13,465	\$17,266	\$2,097	\$(3,801)
% of Photonics net revenues	44.6%	37.9%	42.9%		
Total gross profit	\$30,409	\$26,317	\$17,433	\$4,092	\$ 8,884
% of net revenues	38.0%	35.0%	26.6%		

Cost of net revenues consists primarily of purchased materials and costs attributable to contract R&D, and also includes 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 32.8% in fiscal 2016 compared to 32.4% in fiscal 2015 and 0.7% in fiscal 2014. Fiscal 2016 gross margins improved slightly over fiscal 2015 due primarily to higher revenue levels, higher factory utilization and lower provisions for inventory reserves, offset in part by lower sales of higher-margin upgrades. Fiscal 2015 gross margins improved over fiscal 2014 due primarily to higher sales of higher-margin upgrades, higher factory utilization and lower provisions for inventory reserves. Fiscal 2014 gross margins reflect a \$3.1 million reserve against certain solar implant inventory. Gross margins in the Thin-film Equipment business vary depending on a number of factors, including product mix, product cost, system configuration and pricing, factory utilization, and provisions for excess and obsolete inventory.

Photonics gross margin was 44.6% in fiscal 2016 compared to 37.9% in fiscal 2015 and 42.9% in fiscal 2014. Fiscal 2016 gross margins improved over fiscal 2015 due primarily to higher margins on products and lower inventory provisions, offset in part by lower margins on contract R&D. Fiscal 2015 gross margins declined over fiscal 2014 due primarily to lower margins on products and contract R&D, higher manufacturing engineering costs, and higher inventory provisions, offset in part by lower provisions for loss contracts. Manufacturing costs for digital night-vision products decreased in fiscal 2016, 2015 and 2014 as a result of cost reductions and yield improvements.

Research and development

	<u>Fiscal Year</u>			<u>Change</u>	<u>Change</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 vs. 2015</u>	<u>2015 vs. 2014</u>
	(in thousands)				
Research and development expense	\$18,156	\$15,661	\$15,832	\$2,495	\$(171)

Research and development expense consists primarily of salaries and related costs of employees engaged in and prototype materials used in ongoing research, design and development activities for PV cell manufacturing equipment, DCP manufacturing equipment, HDD disk sputtering equipment and Photonics products.

Research and development spending for Thin-film Equipment in fiscal 2016 and fiscal 2015 increased sequentially as a result of higher spending on PV development and DCP development. Thin-film Equipment research and development expense in fiscal 2015 and fiscal 2014 reflected lower spending due to costs recovered under NRE arrangements.

Research and development spending increased for Photonics during 2016 as compared to 2015 due primarily to spending on a demonstrator monocular which Intevac is developing for evaluation by the U.S. Army. Research and development spending decreased for Photonics during 2015 as compared to 2014 due primarily to engineering efforts expended for product support activities including yield improvements and manufacturing costs reductions and included in product cost of sales. Research and development expenses do not include costs of \$4.5 million, \$5.1 million, and \$7.8 million, in 2016, 2015, and 2014, respectively, which are related to customer-funded contract R&D programs and therefore included in cost of net revenues.

Selling, general and administrative

	Fiscal Year			Change 2016 vs. 2015	Change 2015 vs. 2014
	2016	2015	2014		
	(in thousands)				
Selling, general and administrative expense	\$19,916	\$19,638	\$21,205	\$278	\$(1,567)

Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial and management costs. All domestic sales and the majority of international sales of HDD disk sputtering products in Asia are made through Intevac’s direct sales force. Intevac also sells its Thin-film Equipment products through distributors in Japan and China. Intevac has offices in Singapore, Malaysia and China to support Intevac’s Thin-film Equipment customers in Asia.

Selling, general and administrative expenses increased in 2016 over the amount spent in 2015 due primarily to costs associated with consolidation of our Photonics’ manufacturing facilities and increased equity compensation expense. Selling, general and administrative expenses decreased in 2015 over the amount spent in 2014 due primarily due to lower legal expenses and savings from cost reduction initiatives offset in part by higher equity compensation expense and higher occupancy expenses.

Acquisition-related (benefit), net

	Fiscal Year			Change 2016 vs. 2015	Change 2015 vs. 2014
	2016	2015	2014		
	(in thousands)				
Acquisition-related (benefit), net	\$(100)	\$(244)	\$(250)	\$144	\$6

Acquisition-related (benefit), net, represents the change in the fair value of contingent consideration arrangements related to the SIT acquisition. See Note 7 “Contingent Consideration.” in the notes to the consolidated financial statements for additional information related to the fair value of contingent consideration. Increases in the assessed likelihood of a higher payout under a contingent consideration arrangement contribute to increases in the fair value of the related liability. Conversely, decreases in the assessed likelihood of a higher payout under a contingent consideration arrangement contribute to decreases in the fair value of the related liability.

The benefits recognized during fiscal 2016, fiscal 2015 and fiscal 2014 are associated with changes in the fair value of the contingent consideration related to the revenue earnout obligation. We recorded liabilities on our consolidated balance sheet of \$4.1 million as of the original acquisition date for this contingent consideration arrangement and subsequently remeasured the liability to fair value, with changes in fair value reported in earnings. As a result of this remeasurement, we recorded a net gain of \$100,000, \$244,000 and \$250,000, respectively during fiscal 2016, fiscal 2015 and fiscal 2014.

Cost reduction plans

During the first quarter of fiscal 2015, Intevac substantially completed implementation of the 2015 cost reduction plan (the “2015 Plan”), which reduced expenses and reduced its workforce by 3 percent. The total cost

of implementing the 2015 Plan was \$148,000 of which \$81,000 was reported under cost of net revenues and \$67,000 was reported under operating expenses. Substantially all cash outlays in connection with the 2015 Plan occurred in the first quarter of fiscal 2015. Implementation of the 2015 Plan reduced salary, wages and other employee-related expenses by approximately \$1.4 million on an annual basis.

During the first half of fiscal 2014, Intevac substantially completed implementation of the 2014 cost reduction plan (the “2014 Plan”), which reduced expenses and reduced its workforce by 6 percent. The total cost of implementing the 2014 Plan was \$288,000 of which \$43,000 was reported under cost of net revenues and \$245,000 was reported under operating expenses. Substantially all cash outlays in connection with the 2014 Plan occurred in the first half of fiscal 2014. Implementation of the 2014 Plan reduced salary, wages and other employee-related expenses by approximately \$2.1 million on an annual basis.

As of December 31, 2016, activities related to the 2015 and 2014 Plans were complete.

Interest income and other, net

	<u>Fiscal Year</u>			<u>Change 2016 vs. 2015</u>	<u>Change 2015 vs. 2014</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>		
	(in thousands)				
Interest income and other, net	\$373	\$127	\$337	\$246	\$(210)

Interest income and other, net in fiscal 2016 included \$195,000 of interest income on investments, \$136,000 of gains associated with the sale and disposal of fixed assets and \$30,000 earnout income from a divestiture, offset in part by \$99,000 of foreign currency losses. Interest income and other, net in fiscal 2015 included \$179,000 of interest income on investments and \$100,000 earnout income from a divestiture and \$80,000 of foreign currency gains, offset in part by \$271,000 in losses associated with the disposal of fixed assets. Interest income and other, net in fiscal 2014 included \$179,000 of interest income on investments and \$75,000 earnout income from a divestiture and \$11,000 of foreign currency gains. The increase in interest income in 2016 over 2015 reflected higher interest rates on Intevac’s investments, offset in part by lower invested balances. Interest income for 2015 was flat compared to 2014 as the impact of lower invested balances was offset by higher interest rates on Intevac’s investments.

Provision for income taxes

	<u>Fiscal Year</u>			<u>Change 2016 vs. 2015</u>	<u>Change 2015 vs. 2014</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>		
	(in thousands)				
Provision for income taxes	\$251	\$555	\$8,428	\$(304)	\$(7,873)

Intevac’s effective income tax rate was (3.5%) for fiscal 2016, (6.4%) for fiscal 2015 and (44.3%) for fiscal 2014. 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 accordingly.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant element of objective negative evidence evaluated was the cumulative loss incurred over the three-year periods ended January 3, 2015, December 31, 2013 and December 31, 2012. Such objective evidence limits the ability to consider other

subjective evidence such as Intevac's projections for future growth. On the basis of this analysis and the significant negative objective evidence, for fiscal 2014, a valuation allowance of \$9.4 million was added to record only the portion of the Singapore deferred tax asset that more likely than not will be realized. For fiscal 2016 a valuation allowance decrease of \$136,000 and for fiscal 2015 a valuation allowance increase of \$631,000 for the Singapore deferred tax asset were recorded.

In fiscal 2012, a valuation allowance of \$23.4 million was added to record only the portion of the U.S. federal deferred tax asset that more likely than not will be realized. For fiscal 2016, 2015 and 2014, valuation allowance increases of \$3.3 million, \$1.6 million and \$4.7 million, respectively for the U.S. federal deferred tax assets were recorded.

The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

Liquidity and Capital Resources

At December 31, 2016, Intevac had \$48.2 million in cash, cash equivalents, and investments compared to \$46.6 million at January 2, 2016. During fiscal 2016, cash, cash equivalents and investments increased by \$1.6 million due primarily to cash generated by operating activities and the sale of Intevac common stock to Intevac's employees through Intevac's employee benefit plans partially offset by purchases of fixed assets.

Cash, cash equivalents and investments consist of the following:

	<u>December 31,</u> <u>2016</u>	<u>January 2,</u> <u>2016</u>
	(in thousands)	
Cash and cash equivalents	\$27,043	\$13,746
Short-term investments	17,602	23,208
Long-term investments	<u>3,593</u>	<u>9,673</u>
Total cash, cash-equivalents and investments	<u>\$48,238</u>	<u>\$46,627</u>

Cash generated by operating activities totaled \$3.8 million in 2016 and \$635,000 in 2015. Improved operating cash flow in 2016 was a result of a smaller net loss adjusted to exclude the effect of non-cash charges including deferred taxes, depreciation, amortization, changes in the fair value of acquisition-related contingent consideration, and equity-based compensation. Intevac continues to carefully manage working capital.

Accounts receivable totaled \$17.4 million at December 31, 2016 compared to \$12.3 million at January 2, 2016. The number of days outstanding for Intevac's accounts receivable was 66 at December 31, 2016 compared to 67 at January 2, 2016. Net inventories totaled \$24.9 million at December 31, 2016 compared to \$18.8 million at January 2, 2016. Net inventories at December 31, 2016 include four VERTEX systems for DCP and two Energi implant systems at customer sites that are undergoing installation and acceptance testing. Inventory turns were 2.3 in fiscal 2016 and were 1.5 in fiscal 2015. Accounts payable totaled \$5.3 million at December 31, 2016 compared to \$6.0 million at January 2, 2016. Other accrued liabilities increased to \$17.0 million at December 31, 2016 compared to \$5.6 million at January 2, 2016. Other accrued liabilities at December 31, 2016 includes \$14.2 million in deferred revenue related to four VERTEX systems for DCP and two Energi implant systems at customer sites that are undergoing installation and acceptance testing. Customer advances increased from \$3.6 million at January 2, 2016 to \$5.4 million at December 31, 2016.

Investing activities generated cash of \$8.6 million in 2016, \$8.7 million in 2015, and \$10.1 million in 2014. Proceeds from sales and maturities of investments, net of purchases, totaled \$11.6 million in 2016, \$11.8 million

in 2015, and \$15.5 million in 2014. Intevac is required to maintain a standby letter of credit for \$1.0 million for the Santa Clara, California campus lease. This standby letter of credit is secured with \$1.0 million of restricted cash. Intevac has pledged \$602,000 as collateral for various guarantees with its bank. Capital expenditures were \$3.4 million in 2016, \$3.1 million in 2015, and \$3.7 million in 2014.

Financing activities generated cash of \$1.0 million in 2016, and used cash of \$16.9 million in 2015 and of \$5.9 million in 2014. In November 2013, Intevac's Board of Directors approved a stock repurchase program authorizing up to \$30 million in repurchases. Cash used to repurchase common stock totaled \$18.5 million in 2015 and \$8.4 million in 2014. The sale of Intevac common stock to Intevac's employees through Intevac's employee benefit plans provided \$1.5 million in 2016, \$1.7 million in 2015, and \$2.6 million in 2014. Tax payments related to the net share settlement of restricted stock units were \$426,000 in 2016, \$132,000 in 2015, and \$92,000 in 2014.

In connection with the acquisition of SIT, Intevac agreed to pay to the selling shareholders in cash a revenue earnout on Intevac's net revenue from commercial sales of certain solar implant products over a specified period up to an aggregate of \$9.0 million. As of December 31, 2016, payments made associated with the revenue earnout obligation have not been significant.

Intevac's investment portfolio consists principally of investment grade money market mutual funds, U.S. treasury and agency securities, 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 December 31, 2016, approximately \$11.4 million of cash and cash equivalents were domiciled in foreign tax jurisdictions. Intevac expects a significant portion of these funds to remain off shore 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 Intevac's cash requirements for the next 12 months. Intevac intends to undertake approximately \$5.0 million - \$6.0 million in capital expenditures during the next 12 months.

Contractual Obligations

The following table summarizes Intevac's contractual obligations as of December 31, 2016:

	Total	Payments due by period			
		< 1 Year	1-3 Years	3-5 Years	> 5 Years
		(in thousands)			
Operating lease obligations	\$20,907	\$ 2,824	\$5,642	\$5,664	\$6,777
Purchase obligations and commitments ¹	8,738	8,738	—	—	—
Other long-term liabilities ^{2,4}	178	178	—	—	—
Total ^{3,4}	<u>\$29,823</u>	<u>\$11,740</u>	<u>\$5,642</u>	<u>\$5,664</u>	<u>\$6,777</u>

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

² Intevac is unable to reliably estimate the timing of future payments related to uncertain tax positions; therefore, \$82,000 of unrecognized tax benefits has been excluded from the table above.

- ³ Total excludes contractual obligations already recorded on the consolidated balance sheet as current liabilities (except other long-term liabilities) and certain purchase obligations.
- ⁴ Total excludes contingent consideration that may be paid pursuant to asset purchases or business combinations.

Off-Balance Sheet Arrangements

Off-balance sheet firm commitments relating to outstanding letters of credit amounted to approximately \$1.6 million as of December 31, 2016. These letters of credit and bank guarantees are collateralized by \$1.6 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

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported. Note 1 of Notes to Consolidated Financial Statements describes the significant accounting policies used in the preparation of the consolidated financial statements. Certain of these significant accounting policies are considered to be critical accounting policies.

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

Estimates and assumptions about future events and their effects cannot be determined with certainty. Intevac bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as Intevac's operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties are discussed in the section above entitled "Risk Factors." Based on a critical assessment of its accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that Intevac's consolidated financial statements are fairly stated in accordance with accounting principles generally accepted in the United States of America, and provide a meaningful presentation of Intevac's financial condition and results of operations.

Management believes that the following are critical accounting policies:

Revenue Recognition

Intevac recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss have passed to Intevac's customer or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured. Intevac's shipping terms are customarily FOB shipping point or equivalent terms. Intevac's revenue recognition policy generally results in revenue recognition at the following points: (1) for all transactions where legal title passes to the customer upon shipment, Intevac recognizes revenue upon shipment for all products that have been demonstrated to meet product specifications prior to shipment; the portion of revenue associated with certain installation-related tasks is deferred, and that

revenue is recognized upon completion of the installation-related tasks; (2) for products that have not been demonstrated to meet product specifications prior to shipment, revenue is recognized at customer acceptance; and (3) for arrangements containing multiple elements, the revenue relating to the undelivered elements is deferred until delivery of the deferred elements. When a sales arrangement contains multiple elements, Intevac allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific evidence (“VSOE”) if available, third party evidence (“TPE”) if VSOE is not available, or best estimate of selling price (“ESP”) if neither VSOE nor TPE is available. Intevac generally utilizes the ESP due to the nature of its products. In certain cases, technology upgrade sales are accounted for as multiple-element arrangements, usually split between delivery of the parts and installation on the customer’s systems. In these cases, Intevac recognizes revenue for the relative sales price of the parts upon shipment and transfer of title, and recognizes revenue for the relative sales price of installation services when those services are completed. Revenue related to sales of spare parts is generally recognized upon shipment. Intevac recognizes revenue in certain circumstances before delivery has occurred (commonly referred to as bill and hold transactions). In such circumstances, among other things, risk of ownership has passed to the customer, the customer has made a written fixed commitment to purchase the finished goods, the customer has requested the finished goods be held for future delivery as scheduled and designated by them, and no additional performance obligations exist by Intevac. For these transactions, the finished goods are segregated from inventory and normal billing and credit terms granted. Revenue related to services is generally recognized upon completion of the services. In addition, Intevac uses the installment method to record revenue based on cash receipts in situations where the account receivable is collected over an extended period of time and in management’s judgment the degree of collectibility is uncertain.

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

Inventories

Inventories are valued using average actual costs and are stated at the lower of cost or market. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the estimated market value based upon assumptions about future demand. Intevac evaluates the inventory carrying value for potential excess and obsolete inventory exposures by analyzing historical and anticipated demand. In addition, inventories are evaluated for potential obsolescence due to the effect of known and anticipated engineering change orders and new products. If actual demand were to be substantially lower than estimated, additional inventory adjustments for excess or obsolete inventory might be required, which could have a material adverse effect on Intevac’s business, financial condition and results of operations.

Warranty

Intevac estimates the costs that may be incurred under the warranty it provides and records a liability in the amount of such costs at the time the related revenue is recognized. Estimated warranty costs are determined by

analyzing specific product and historical configuration statistics and regional warranty support costs. Intevac's warranty obligation is affected by product failure rates, material usage, and labor costs incurred in correcting product failures during the warranty period. As Intevac's customer service engineers and process support engineers are highly trained and deployed globally, labor availability is a significant factor in determining labor costs. The quantity and availability of critical replacement parts is another significant factor in estimating warranty costs. Unforeseen component failures or exceptional component performance can also result in changes to warranty costs. If actual warranty costs differ substantially from our estimates, revisions to the estimated warranty liability would be required.

Income Taxes

Intevac accounts for income taxes by recognizing deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities, net operating losses and tax credit carryforwards. Deferred tax assets are also reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized. Management has determined that it is more likely than not that its future taxable income will not be sufficient to realize its entire deferred tax assets.

The effective tax rate is highly dependent upon the geographic composition of worldwide earnings, tax regulations governing each region, non-tax deductible expenses and availability of tax credits. Management carefully monitors the changes in many factors and adjusts the effective income tax rate as required. If actual results differ from these estimates, Intevac could be required to record additional valuation allowances on deferred tax assets or adjust its effective income tax rate, which could have a material adverse effect on Intevac's business, financial condition and results of operations.

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with Intevac's expectations could have a material impact on Intevac's results of operations and financial condition.

Valuation of Acquisition-Related Contingent Consideration

Contingent consideration related to a business combination is recorded at the acquisition date at the estimated fair value of the contingent payments. The acquisition date fair value is measured based on the consideration expected to be transferred (probability-weighted), discounted back to present value. The discount rate used is determined at the time of the acquisition in accordance with accepted valuation methods. The fair value of the acquisition-related contingent consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense in the consolidated statements of operations.

Equity-Based Compensation

Intevac records compensation expense for equity-based awards using the Black-Scholes option pricing model. This model requires Intevac to estimate the expected volatility of the price of Intevac's common stock and the expected life of the equity-based awards. Intevac also estimates the forfeiture of the equity-based awards. Estimating volatility, expected life and forfeitures requires significant judgment and an analysis of historical data. Intevac may have to increase or decrease compensation expense for equity-based awards if actual results differ significantly from Intevac's estimates.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk. Intevac’s exposure to market risk for changes in interest rates relates primarily to 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 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 December 31, 2016.

	<u>2017</u>	<u>2018</u>	<u>Total</u>	<u>Fair Value</u>
	(In thousands, except percentages)			
Cash equivalents				
Variable rate amounts	\$ 8,317	\$ —	\$ 8,317	\$ 8,317
Weighted-average rate	0.47%	—		
Short-term investments				
Fixed rate amounts	\$17,610	\$ —	\$17,610	\$17,602
Weighted-average rate	1.65%	—		
Long-term investments				
Fixed rate amounts	\$ —	\$3,607	\$ 3,607	\$ 3,593
Weighted-average rate	—	1.39%		
Total investment portfolio	\$25,927	\$3,607	\$29,534	\$29,512

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 maturities of approximately 30 days. The notional amount of Company’s foreign currency derivatives was \$1.1 million at December 31, 2016 and \$924,000 at January 2, 2016.

Item 8. *Financial Statements and Supplementary Data*

**INTEVAC, INC.
CONSOLIDATED FINANCIAL STATEMENTS**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Intevac, Inc.

We have audited the accompanying consolidated balance sheets of Intevac, Inc. (a Delaware corporation) and its subsidiaries (the “Company”) as of December 31, 2016 and January 2, 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Intevac, Inc. and its subsidiaries as of December 31, 2016 and January 2, 2016, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2016, based on the criteria established in the *Internal Control—Integrated Framework* (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 15, 2017 expressed an unqualified opinion thereon.

/s/ BPM LLP

San Jose, California
February 15, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Intevac, Inc.

We have audited the accompanying consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows of Intevac, Inc. (a Delaware corporation) and subsidiaries (the "Company") for the year ended January 3, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of their operations and cash flows of Intevac, Inc. and subsidiaries for the year ended January 3, 2015 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

San Jose, California
February 17, 2015

INTEVAC, INC.
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> <u>2016</u>	<u>January 2,</u> <u>2016</u>
	<u>(In thousands, except par value)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,043	\$ 13,746
Short-term investments	17,602	23,208
Trade and other accounts receivable, net of allowances of \$0 at both December 31, 2016 and January 2, 2016	17,447	12,310
Inventories	24,876	18,760
Prepaid expenses and other current assets	1,768	1,712
Total current assets	<u>88,736</u>	<u>69,736</u>
Property, plant and equipment, net	11,237	11,921
Long-term investments	3,593	9,673
Restricted cash	1,602	1,780
Intangible assets, net of amortization of \$6,129 and \$5,275 at December 31, 2016 and January 2, 2016, respectively	2,258	3,112
Other long-term assets	898	1,459
Total assets	<u>\$108,324</u>	<u>\$ 97,681</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,323	\$ 5,950
Accrued payroll and related liabilities	4,220	4,066
Other accrued liabilities	17,011	5,632
Customer advances	5,422	3,625
Total current liabilities	<u>31,976</u>	<u>19,273</u>
Other long-term liabilities	3,082	2,411
Commitments and contingencies		
Stockholders' equity:		
Undesignated preferred stock, \$0.001 par value, 10,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.001 par value :		
Authorized shares — 50,000 issued and outstanding shares — 20,939 and 20,372 at December 31, 2016 and January 2, 2016, respectively	21	20
Additional paid-in capital	171,314	166,514
Treasury stock, 4,845 shares at both December 31, 2016 and January 2, 2016	(28,489)	(28,489)
Accumulated other comprehensive income	321	412
Accumulated deficit	(69,901)	(62,460)
Total stockholders' equity	<u>73,266</u>	<u>75,997</u>
Total liabilities and stockholders' equity	<u>\$108,324</u>	<u>\$ 97,681</u>

See accompanying notes.

INTEVAC, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended,		
	December 31, 2016	January 2, 2016	January 3, 2015
	(In thousands, except per share amounts)		
Net revenues:			
Systems and components	\$74,342	\$68,072	\$ 54,463
Technology development	5,782	7,088	11,087
Total net revenues	80,124	75,160	65,550
Cost of net revenues:			
Systems and components	45,263	43,700	40,284
Technology development	4,452	5,143	7,833
Total cost of net revenues	49,715	48,843	48,117
Gross profit	30,409	26,317	17,433
Operating expenses:			
Research and development	18,156	15,661	15,832
Selling, general and administrative	19,916	19,638	21,205
Acquisition-related (benefit), net	(100)	(244)	(250)
Total operating expenses	37,972	35,055	36,787
Operating loss	(7,563)	(8,738)	(19,354)
Interest income	195	179	179
Other income (expense), net	178	(52)	158
Loss before income taxes	(7,190)	(8,611)	(19,017)
Provision for income taxes	251	555	8,428
Net loss	<u>\$ (7,441)</u>	<u>\$ (9,166)</u>	<u>\$ (27,445)</u>
Net loss per share:			
Basic and diluted	\$ (0.36)	\$ (0.41)	\$ (1.16)
Weighted average shares outstanding:			
Basic and diluted	20,761	22,218	23,671

See accompanying notes.

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

	Year Ended		
	December 31, 2016	January 2, 2016	January 3, 2015
	(In thousands)		
Net loss	\$(7,441)	\$(9,166)	\$(27,445)
Other comprehensive loss, before tax			
Change in unrealized net loss on available-for-sale investments	18	(39)	(35)
Foreign currency translation losses	(109)	(168)	(71)
	(91)	(207)	(106)
Income tax expense related to items in other comprehensive loss	—	—	—
Other comprehensive loss, net of tax	(91)	(207)	(106)
Comprehensive loss	<u>\$ (7,532)</u>	<u>\$ (9,373)</u>	<u>\$ (27,551)</u>

See accompanying notes.

INTEVAC, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Treasury Stock</u>		<u>Accumulated Other Comprehensive Income</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>		<u>Shares</u>	<u>Amount</u>			
Balance at December 31, 2013	23,767	\$ 24	\$156,359	241	\$ (1,688)	\$ 725	\$(25,849)	\$129,571
Shares issued in connection with:								
Exercise of stock options	190	—	948	—	—	—	—	948
Settlement of RSUs	72	—	—	—	—	—	—	—
Employee stock purchase plan . . .	444	—	1,611	—	—	—	—	1,611
Shares withheld in connection with net share settlement of RSUs	(13)	—	(92)	—	—	—	—	(92)
Equity-based compensation expense	—	—	2,445	—	—	—	—	2,445
Net loss	—	—	—	—	—	—	(27,445)	(27,445)
Other comprehensive loss	—	—	—	—	—	(106)	—	(106)
Common stock repurchases	(1,185)	(1)	—	1,185	(8,301)	—	—	(8,302)
Balance at January 3, 2015	23,275	\$ 23	\$161,271	1,426	\$ (9,989)	\$ 619	\$(53,294)	\$ 98,630
Shares issued in connection with:								
Exercise of stock options	54	—	239	—	—	—	—	239
Settlement of RSUs	113	—	—	—	—	—	—	—
Employee stock purchase plan . . .	374	—	1,460	—	—	—	—	1,460
Shares withheld in connection with net share settlement of RSUs	(25)	—	(132)	—	—	—	—	(132)
Equity-based compensation expense	—	—	3,296	—	—	—	—	3,296
Grant of RSUs to settle accrued bonus	—	—	380	—	—	—	—	380
Net loss	—	—	—	—	—	—	(9,166)	(9,166)
Other comprehensive loss	—	—	—	—	—	(207)	—	(207)
Common stock repurchases	(3,419)	(3)	—	3,419	(18,500)	—	—	(18,503)
Balance at January 2, 2016	20,372	\$ 20	\$166,514	4,845	\$(28,489)	\$ 412	\$(62,460)	\$ 75,997
Shares issued in connection with:								
Exercise of stock options	9	—	38	—	—	—	—	38
Settlement of RSUs	269	—	—	—	—	—	—	—
Employee stock purchase plan . . .	384	1	1,450	—	—	—	—	1,451
Shares withheld in connection with net share settlement of RSUs	(95)	—	(426)	—	—	—	—	(426)
Equity-based compensation expense	—	—	3,254	—	—	—	—	3,254
Grant of RSUs to settle accrued bonus	—	—	484	—	—	—	—	484
Net loss	—	—	—	—	—	—	(7,441)	(7,441)
Other comprehensive loss	—	—	—	—	—	(91)	—	(91)
Balance at December 31, 2016	<u>20,939</u>	<u>\$ 21</u>	<u>\$171,314</u>	<u>4,845</u>	<u>\$(28,489)</u>	<u>\$ 321</u>	<u>\$(69,901)</u>	<u>\$ 73,266</u>

See accompanying notes.

INTEVAC, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	December 31, 2016	January 2, 2016	January 3, 2015
	(In thousands)		
Operating activities			
Net loss	\$ (7,441)	\$ (9,166)	\$(27,445)
Adjustments to reconcile net loss to net cash and cash equivalents provided by (used in) operating activities:			
Depreciation & amortization	3,983	3,743	3,769
Net amortization (accretion) of investment premiums and discounts	128	319	655
Amortization of intangible assets	854	854	936
Equity-based compensation	3,744	3,620	3,000
Deferred income taxes	9	(12)	(728)
Deferred income taxes valuation allowance	—	—	9,394
Change in the fair value of acquisition-related contingent consideration	(100)	(244)	(250)
Loss (gain) on disposal of equipment	(136)	271	41
Changes in assets and liabilities:			
Accounts receivable	(5,137)	(223)	2,950
Inventories	(6,116)	452	3,550
Prepaid expenses and other assets	496	(1,382)	(166)
Accounts payable	(627)	1,310	629
Accrued payroll and other accrued liabilities	12,329	19	2163
Customer advances	1,797	1,074	(1,192)
Total adjustments	11,224	9,801	24,751
Net cash and cash equivalents provided by (used in) operating activities	3,783	635	(2,694)
Investing activities			
Purchase of investments	(12,429)	(21,058)	(35,703)
Proceeds from sales and maturities of investments	24,005	32,900	51,225
Proceeds from sale of equipment	208	11	13
Decrease (increase) in restricted cash	178	—	(1,780)
Purchase of equipment	(3,373)	(3,117)	(3,705)
Net cash and cash equivalents provided by investing activities	8,589	8,736	10,050
Financing activities			
Proceeds from issuance of common stock	1,489	1,699	2,559
Common stock repurchases	—	(18,503)	(8,392)
Taxes paid related to net share settlement	(426)	(132)	(92)
Payment of acquisition-related contingent consideration	(31)	—	—
Net cash and cash equivalents provided by (used in) financing activities	1,032	(16,936)	(5,925)
Effect of exchange rate changes on cash	(107)	(171)	(70)
Net increase (decrease) in cash and cash equivalents	13,297	(7,736)	1,361
Cash and cash equivalents at beginning of period	13,746	21,482	20,121
Cash and cash equivalents at end of period	<u>\$ 27,043</u>	<u>\$ 13,746</u>	<u>\$ 21,482</u>
Cash paid (received) for:			
Income taxes	\$ 516	\$ 1,190	\$ 378
Income tax refund	\$ (524)	\$ —	\$ —

See accompanying notes.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Intevac, Inc. and its subsidiaries (Intevac or the Company) after elimination of inter-company balances and transactions.

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

Change in Fiscal Year End Date

On February 19, 2014, the Board of Directors of the Company approved the Company's change to a 52-53 week fiscal year ending on the Saturday nearest to December 31 of each year in order to improve the alignment of financial and business processes and to streamline financial reporting. Each fiscal quarter consists of 13 weeks, with an occasional fourth quarter extending to 14 weeks, if necessary, for the fiscal year to end on the Saturday nearest to December 31. The Company's fiscal 2016, fiscal 2015 and fiscal 2014 years ended on December 31, 2016, January 2, 2016 and on January 3, 2015, respectively.

Cash, Cash Equivalents and Investments

Intevac considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Available-for-sale securities, comprised of commercial paper, obligations of the U.S. government and its agencies, corporate debt securities and municipal bonds, are carried at fair value, with unrealized gains and losses recorded within other comprehensive income (loss) as a separate component of stockholders' equity. Realized gains and losses and declines in value judged to be other than temporary, if any, on available-for-sale securities are included in earnings. Purchases and sales of investment securities are recognized on a trade date basis. The cost of investment securities sold is determined by the specific identification method.

Restricted Cash

Restricted cash of \$1.0 million as of December 31, 2016 secures a standby letter of credit obligation associated with a lease obligation and the restriction on the cash will be removed when the letter of credit expires. In addition Intevac pledged \$602,000 as collateral for various guarantees with its bank.

Derivative Instruments and Hedging Arrangements

Foreign Exchange Exposure Management — Intevac enters into forward foreign currency contracts that economically hedge the gains and losses generated by the re-measurement of certain recorded assets and liabilities in a non-functional currency and to offset certain operational exposures from the impact of changes in foreign currency exchange rates. Such exposures result from the portion of the Company's operations, assets and liabilities that are denominated in currencies other than the U.S. dollar, primarily the Singapore dollar. These foreign currency exchange contracts are entered into to support transactions made in the normal course of business, and accordingly, are not speculative in nature. The contracts are for periods consistent with the terms of the underlying transactions, generally one year or less. Changes in the fair value of these undesignated hedges are recognized in other income (expense), net immediately as an offset to the changes in the fair value of the asset or liability being hedged.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Fair Value Measurement—Definition and Hierarchy

Intevac reports certain financial assets and liabilities at fair value. Intevac defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are classified and disclosed in one of the following three categories:

Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2—Valuations based on other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Valuations based on inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

Trade Accounts Receivables and Doubtful Accounts

Intevac evaluates the collectibility of trade accounts receivable on an ongoing basis and provides reserves against potential losses when appropriate. Management analyzes historical bad debts, customer concentrations, customer creditworthiness, changes in customer payment tendencies and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Customer accounts are written off against the allowance when the amount is deemed uncollectible.

Inventories

Inventories are generally stated at the lower of cost or market, with cost determined on an average cost basis.

Property, Plant and Equipment

Equipment and leasehold improvements are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: computers and software, 3 years; machinery and equipment, 5 years; furniture, 7 years; vehicles, 4 years; and leasehold improvements, remaining lease term.

Contingent Consideration and Purchased Intangible Assets

Contingent consideration related to a business combination is recorded at the acquisition date at the estimated fair value of the contingent payments. The acquisition date fair value is measured based on the consideration expected to be transferred (probability-weighted), discounted back to present value. The discount rate used is determined at the time of the acquisition in accordance with accepted valuation methods. The fair value of the acquisition-related contingent consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense in the consolidated statements of operations.

Purchased intangible assets other than goodwill are amortized over their useful lives unless these lives are determined to be indefinite. Purchased intangible assets are carried at cost, less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, generally one to thirteen years using the straight line method. In 2012, as a result of its impairment analysis, Intevac wrote off all of the goodwill in both its Thin-film Equipment and Photonics reporting units.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable finite-lived intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability of long-lived assets is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value. No impairment charges were recognized in fiscal 2016, 2015 and 2014.

Income Taxes

Deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between book and tax bases of recorded assets and liabilities. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized.

On a quarterly basis, Intevac provides for income taxes based upon an annual effective income tax rate. The effective tax rate is highly dependent upon the level of Intevac's projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carryforwards, availability of tax credits and the effectiveness of Intevac's tax planning strategies. Intevac carefully monitors the changes in many factors and adjust its effective income tax rate on a timely basis. If actual results differ from the estimates, this could have a material effect on Intevac's business, financial condition and results of operations.

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with Intevac's expectations could have a material effect on Intevac's business, financial condition and results of operations.

Intevac recognizes accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes.

Sales and Value Added Taxes

Taxes collected from customers and remitted to governmental authorities are presented on a net basis in the accompanying consolidated statements of operations.

Revenue Recognition

Intevac recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss have passed to Intevac's customer or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured. Intevac's shipping terms are customarily FOB shipping point or equivalent terms. Intevac's revenue recognition policy generally results in revenue recognition at the following points: (1) for all transactions where legal title passes to the customer upon shipment, Intevac recognizes revenue upon shipment for all products that have been demonstrated to meet product specifications prior to shipment; the portion of revenue associated with certain installation-related tasks is deferred, and that revenue is recognized upon completion of the installation-related tasks; (2) for products that have not been demonstrated to meet product specifications prior to shipment, revenue is recognized at customer acceptance; and (3) for arrangements containing multiple elements, the revenue relating to the undelivered elements is deferred until delivery of the deferred elements. When a sales arrangement contains multiple elements, Intevac allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

on its VSOE if available, TPE if VSOE is not available, or best ESP if neither VSOE nor TPE is available. Intevac generally utilizes the ESP due to the nature of its products. In certain cases, technology upgrade sales are accounted for as multiple-element arrangements, usually split between delivery of the parts and installation on the customer's systems. In these cases, Intevac recognizes revenue for the relative sales price of the parts upon shipment and transfer of title, and recognizes revenue for the relative sales price of installation services when those services are completed. Revenue related to sales of spare parts is generally recognized upon shipment. Intevac recognizes revenue in certain circumstances before delivery has occurred (commonly referred to as bill and hold transactions). In such circumstances, among other things, risk of ownership has passed to the customer, the customer has made a written fixed commitment to purchase the finished goods, the customer has requested the finished goods be held for future delivery as scheduled and designated by them, and no additional performance obligations exist by Intevac. For these transactions, the finished goods are segregated from inventory and normal billing and credit terms granted. Revenue related to services is generally recognized upon completion of the services. In addition, Intevac uses the installment method to record revenue based on cash receipts in situations where the account receivable is collected over an extended period of time and in management's judgment the degree of collectibility is uncertain.

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were not material for all periods presented.

Foreign Currency Translation

The functional currency of Intevac's foreign subsidiaries in Singapore and Hong Kong and the Taiwan branch is the U.S. dollar. The functional currency of Intevac's foreign subsidiaries in China, Malaysia and Korea is the local currency of the country in which the respective subsidiary operates. Assets and liabilities recorded in foreign currencies are translated at year-end exchange rates; revenues and expenses are translated at average exchange rates during the year. The effect of foreign currency translation adjustments are included in stockholders' equity as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets. The effects of foreign currency transactions are included in other income in the determination of net loss. Net income (losses) from foreign currency transactions were (\$99,000), \$80,000, and \$11,000 in 2016, 2015 and 2014, respectively.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Comprehensive Income

The changes in accumulated other comprehensive income by component, were as follows for the years ended December 31, 2016 and January 2, 2016:

	<u>Foreign currency</u>	<u>Unrealized holding gains (losses) on available- for-sale investments</u>	<u>Total</u>
		(in thousands)	
Balance at January 3, 2015	\$ 620	\$ (1)	\$ 619
Other comprehensive loss before reclassification	(168)	(39)	(207)
Amounts reclassified from other comprehensive income	—	—	—
Net current-period other comprehensive loss	<u>(168)</u>	<u>(39)</u>	<u>(207)</u>
Balance at January 2, 2016	\$ 452	\$ (40)	\$ 412
Other comprehensive loss before reclassification	(109)	18	(91)
Amounts reclassified from other comprehensive income	—	—	—
Net current-period other comprehensive loss	<u>(109)</u>	<u>18</u>	<u>(91)</u>
Balance at December 31, 2016	<u>\$ 343</u>	<u>\$ (22)</u>	<u>\$ 321</u>

Employee Stock Plans

Intevac has equity-based compensation plans that provide for the grant to employees of equity-based awards, including incentive or non-statutory stock options, restricted stock, stock appreciation rights, restricted stock units (“RSUs”), performance units and performance bonus awards. In addition, these plans provide for the grant of non-statutory stock options and RSUs to non-employee directors and consultants. Intevac also has an employee stock purchase plan, which provides Intevac’s employees with the opportunity to purchase Intevac common stock at a discount through payroll deductions. See Note 2 for a complete description of these plans and their accounting treatment.

Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-11, *Inventory (Topic 330), Simplifying the Measurement of Inventory*. Under this update, subsequent measurement of inventory is based on the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and disposal. This update should be applied prospectively and will be adopted by Intevac in the first quarter of fiscal 2017. Early adoption is permitted. Intevac does not expect the adoption of this update to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)* that will supersede virtually all existing revenue guidance. This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This update should be applied retrospectively either to each prior reporting period presented in the financial statements, or only to the most current reporting period presented in the financial statements with a cumulative effect adjustment recorded in the retained earnings. In August 2015, the FASB issued an update to defer the effective date of this update by one year. This update becomes effective and will be adopted by Intevac in the first quarter of fiscal 2018. Early adoption is not permitted for reporting periods before the first quarter of fiscal 2017. The Company is currently evaluating the impact of this update on its consolidated financial statements.

The FASB has issued several more amendments to the new revenue standard ASU 2014-09, as amended by ASU 2015-14:

March 2016—ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to customers.

April 2016—ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. ASU 2016-10 covers two specific topics: performance obligations and licensing. This ASU includes guidance on immaterial promised goods or services, shipping or handling activities, separately identifiable performance obligations, functional or symbolic intellectual property licenses, sales-based and usage-based royalties, license restrictions (time, use, geographical) and licensing renewals.

May 2016—ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow Scope Improvements and Practical Expedients*. ASU 2016-12 clarifies certain core recognition principles including collectability, sales tax presentation, noncash consideration, contract modifications and completed contracts at transition and disclosures no longer required if the full retrospective transition method is adopted.

We are currently assessing how the adoption of these new standards will impact our consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*, which amends the existing guidance to require lessees to recognize lease assets and lease liabilities arising from operating leases in a classified balance sheet. The requirements of this ASU are effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact that ASU 2016-02 will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation (Topic 718)*. This ASU makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. The requirements of this ASU are effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. We are currently assessing how the adoption of this standard will impact our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. This ASU amends the impairment model to utilize an expected loss methodology in place of the currently used incurred

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

loss methodology, which will result in the more timely recognition of losses. The requirements of this ASU are effective for interim and annual reporting periods beginning after December 15, 2019. We are currently assessing how the adoption of this standard will impact our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. This ASU provides guidance related to the classification of certain transactions on the statement of cash flows. The requirements of this ASU are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. Intevac does not expect the adoption of this update to have a material impact on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, *Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control*, which amends the consolidation guidance on how a reporting entity that is the single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. This new guidance is effective for reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently assessing how the adoption of this standard will impact our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the classification of restricted cash in the statement of cash flows. This new guidance is effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The amendments in the ASU should be adopted on a retrospective basis. 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 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which provides guidance on evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This new guidance is effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The amendments in the ASU should be adopted on a retrospective basis. We are currently assessing how the adoption of this standard will impact our consolidated financial statements.

2. Equity-Based Compensation

Intevac accounts for share-based awards in accordance with the provisions of the accounting guidance which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees, consultants and directors based upon the grant-date fair value of those awards. The estimated fair value of Intevac's equity-based awards, less expected forfeitures, is amortized over the awards' service periods using the graded vesting attribution method.

Descriptions of Plans

Equity Incentive Plans

At December 31, 2016, Intevac had equity-based awards outstanding under the 2012 Equity Incentive Plan and the 2004 Equity Incentive Plan (the "Plans") and the 2003 Employee Stock Purchase Plan (the "ESPP"). Intevac's stockholders approved all of these plans.

The Plans are a broad-based, long-term retention program intended to attract and retain qualified management and employees, and align stockholder and employee interests. The Plans permit the grant of

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

incentive or non-statutory stock options, restricted stock, stock appreciation rights, RSUs and performance shares. Option price, vesting period, and other terms are determined by the administrator of the Plans, but the option price shall generally not be less than 100% of the fair market value per share on the date of grant. As of December 31, 2016, 5.5 million shares of common stock were authorized for future issuance under the Plans. The 2012 Plan expires no later than May 8, 2022.

2003 Employee Stock Purchase Plan

In 2003, Intevac’s stockholders approved adoption of the ESPP, which serves as the successor to the Employee Stock Purchase Plan originally adopted in 1995. Upon adoption of the ESPP, all shares available for issuance under the prior plan were transferred to the ESPP. The ESPP provides that eligible employees may purchase Intevac common stock through payroll deductions at a price equal to 85% of the lower of the fair market value at the beginning of the applicable offering period or at the end of each applicable purchase interval. Offering periods are generally two years in length, and consist of a series of six-month purchase intervals. Eligible employees may join the ESPP at the beginning of any six-month purchase interval. Under the terms of the ESPP, employees can choose to have up to 15% of their base earnings withheld to purchase Intevac common stock. As of December 31, 2016, 242,000 shares remained available for issuance under the ESPP.

The effect of recording equity-based compensation for fiscal 2016, 2015 and 2014 was as follows (in thousands):

	2016	2015	2014
Equity-based compensation by type of award:			
Stock options	\$ 880	\$ 963	\$1,094
RSUs	2,190	1,711	1,464
Employee stock purchase plan	674	946	442
Total equity-based compensation	\$3,744	\$3,620	\$3,000

Stock Options

The exercise price of each stock option equals the market price of Intevac’s stock on the date of grant. Most options are scheduled to vest over three and/or four years and expire no later than ten years after the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. Intevac’s employee stock options have characteristics significantly different from those of publicly traded options. The weighted-average assumptions used in the model are outlined in the following table:

	2016	2015	2014
Stock Options:			
Weighted-average fair value of grants per share	\$ 1.76	\$ 2.05	\$ 3.15
Expected volatility	43.86%	46.12%	52.12%
Risk free interest rate	0.97%	1.42%	1.39%
Expected term of options (in years)	4.28	3.99	4.38
Dividend yield	None	None	None

The computation of the expected volatility assumption used in the Black-Scholes calculations for new grants is based on historical volatility of Intevac’s stock price. The risk-free interest rate is based on the yield available on U.S. Treasury Strips with an equivalent remaining term. The expected life of employee stock options

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

represents the weighted-average period that the stock options are expected to remain outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards and vesting schedules. The dividend yield assumption is based on Intevac's history of not paying dividends and the assumption of not paying dividends in the future.

A summary of the stock option activity is as follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (years)</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at January 2, 2016	2,433,647	\$ 7.52	4.10	\$ 141,546
Options granted	422,500	\$ 4.88		
Options cancelled and forfeited	(107,230)	\$10.69		
Options exercised	<u>(8,553)</u>	<u>\$ 4.47</u>		
Options outstanding at December 31, 2016	<u>2,740,364</u>	\$ 7.00	3.64	\$5,837,900
Vested and expected to vest at December 31, 2016	2,624,994	\$ 7.07	3.55	\$5,476,403
Options exercisable at December 31, 2016	1,829,765	\$ 7.73	2.74	\$3,082,215

The total intrinsic value of options exercised during fiscal years 2016, 2015 and 2014 was \$13,000, \$65,000 and \$496,000, respectively. At December 31, 2016, Intevac had \$640,000 of total unrecognized compensation expense, net of estimated forfeitures, related to stock option plans that will be recognized over the weighted-average period of 1.17 years.

The options outstanding and currently exercisable at December 31, 2016 were in the following exercise price ranges:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>		<u>Options Exercisable</u>		
	<u>Number of Shares Outstanding</u>	<u>Weighted Average Remaining Contractual Term (years)</u>	<u>Weighted Average Exercise Price</u>	<u>Number Vested and Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$3.91 - —\$ 5.42	1,023,311	4.88	\$ 4.77	407,446	\$ 4.54
\$5.43 - \$7.37	924,908	3.93	\$ 6.61	660,729	\$ 6.61
\$7.38 - \$20.10	792,145	1.71	\$10.34	761,590	\$10.42
\$3.91 - \$20.10	<u>2,740,364</u>	3.64	\$ 7.00	<u>1,829,765</u>	\$ 7.73

RSUs

A summary of the RSU activity is as follows:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Weighted Average Remaining Contractual Term (years)</u>	<u>Aggregate Intrinsic Value</u>
Non-vested RSUs at January 2, 2016	553,584	\$6.16	1.02	\$2,607,381
Granted	768,527	\$4.20		
Vested	(268,883)	\$6.46		
Cancelled	<u>(103,773)</u>	<u>\$4.81</u>		
Non-vested RSUs at December 31, 2016	<u>949,455</u>	\$4.64	1.04	\$8,117,840

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 three and/or 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. At December 31, 2016, Intevac had \$1.4 million of total unrecognized compensation expense, net of estimated forfeitures, related to RSUs that will be recognized over the weighted-average period of 1.04 years.

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. Intevac granted 125,000 of such awards to certain executive officers in fiscal 2016. These awards have a derived service period of 2.8 years. The weighted-average assumptions used in the model are outlined in the following table.

	2016
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

The annual bonus for certain participants in the Company’s annual incentive plan for fiscal 2016 will be settled with RSUs with one year vesting issued in 2017. The Company accrued for the payment of bonuses at the expected company-wide payout percentage amount at December 31, 2016, which amounts were less than the target bonus amounts for each participant. The bonus accrual is classified as a liability until the number of shares is determined on the date the awards are granted, at which time the Company classifies the awards into equity. The Company recorded equity-based compensation expense related to the annual incentive plan of \$490,000 in fiscal 2016. At December 31, 2016, Intevac had \$566,000 of total unrecognized compensation expense, net of estimated forfeitures, related to the annual incentive plan that will be recognized over a remaining period of 1.15 years.

The annual bonus for certain participants in the Company’s annual incentive plan for fiscal 2015 was settled with RSUs with one year vesting issued in 2016. The Company recorded equity-based compensation expense related to the annual incentive plan of \$324,000 in fiscal 2015. In February 2016, the annual bonus for certain participants was settled with RSUs with one year vesting. Thirty-four participants were granted stock awards to receive 266,000 shares of common stock with a weighted-average grant date fair value of \$4.40 per share.

The annual bonus for certain participants in the Company’s annual incentive plan for fiscal 2014 was settled with RSUs with one year vesting issued in 2015. The Company recorded equity-based compensation expense related to the annual incentive plan of \$554,000 in fiscal 2014. In February 2015, the annual bonus for certain participants was settled with RSUs with one year vesting. Twenty-nine participants were granted stock awards to receive 133,000 shares of common stock with a weighted-average grant date fair value of \$6.85 per share.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

ESPP

The fair value of the employee stock purchase right is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Stock Purchase Rights:			
Weighted-average fair value of grants per share	\$ 1.55	\$ 2.14	\$ 2.08
Expected volatility	39.22%	43.45%	44.00%
Risk free interest rate	0.75%	0.45%	0.11%
Expected term of purchase rights (in years)	1.87	1.36	0.69
Dividend yield	None	None	None

The expected life of purchase rights is the period of time remaining in the current offering period.

The ESPP activity during fiscal 2016, 2015 and 2014 is as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<i>(in thousands, except per share amounts)</i>		
Shares purchased	384	374	444
Weighted-average purchase price per share	\$3.78	\$3.90	\$ 3.63
Aggregate intrinsic value of purchase rights exercised	\$ 514	\$ 688	\$1,444

As of December 31, 2016, Intevac had \$277,000 of total unrecognized compensation expense, net of estimated forfeitures related to purchase rights that will be recognized over the weighted-average period of 0.56 years.

3. Earnings Per Share

Intevac calculates basic earnings per share (“EPS”) using net income (loss) and the weighted-average number of shares outstanding during the reporting period. Diluted EPS includes the effect from potential issuance of common stock pursuant to the exercise of employee stock options and vesting of RSUs.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<i>(in thousands, except per share amounts)</i>		
Net loss	<u>\$ (7,441)</u>	<u>\$ (9,166)</u>	<u>\$(27,445)</u>
Weighted-average shares – basic	20,761	22,218	23,671
Effect of dilutive potential common shares	—	—	—
Weighted-average shares – diluted	<u>20,761</u>	<u>22,218</u>	<u>23,671</u>
Net loss per share – basic and diluted	<u>\$ (0.36)</u>	<u>\$ (0.41)</u>	<u>\$ (1.16)</u>

As the Company is in a net loss position, all of the Company’s equity instruments are considered antidilutive.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

4. Concentrations

Credit Risk and Significant Customers

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash equivalents, short- and long-term investments, restricted cash, and accounts receivable. Intevac generally invests its excess cash in money market funds, commercial paper, obligations of the U.S. government and its agencies, corporate debt securities and municipal bonds. 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.

Intevac's accounts receivable tend to be concentrated in a limited number of customers. The following customers accounted for at least 10 percent of Intevac's accounts receivable at December 31, 2016 and January 2, 2016.

	<u>2016</u>	<u>2015</u>
Seagate Technology	55%	*
HGST	10%	37%
Western Digital	*	15%
U.S. Government	*	11%

* Less than 10%

Intevac's largest customers tend to change from period to period. Historically, a significant portion of Intevac's revenues in any particular period have been attributable to sales to a limited number of customers. Intevac performs credit evaluations of its customers' financial condition and generally requires deposits on system orders but does not generally require collateral or other security to support customer receivables.

The following customers accounted for at least 10 percent of Intevac's consolidated net revenues in fiscal 2016, 2015, and/or 2014.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Seagate Technology	34%	22%	15%
U.S. Government	22%	26%	32%
Elbit Systems of America	10%	*	*
HGST	*	15%	17%

* Less than 10%

Products

Disk manufacturing products contributed a significant portion of Intevac's revenues in fiscal 2016, 2015, and 2014. Intevac expects that the ability to maintain or expand its current levels of revenues in the future will depend upon continuing market demand for its products; its success in enhancing its existing systems and developing and manufacturing competitive disk manufacturing equipment, such as the 200 Lean; its success in utilizing Intevac's expertise in complex manufacturing equipment to develop and sell new equipment products for PV and DCP manufacturing and Intevac's success in developing military products based on its low-light technology.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

5. Balance Sheet Details

Balance sheet details were as follows as of December 31, 2016 and January 2, 2016:

Trade and Other Accounts Receivable, Net

Receivables consisted of the following components:

	December 31, 2016	January 2, 2016
	(in thousands)	
Trade receivables and other	\$15,167	\$11,939
Unbilled costs and accrued profits	2,280	371
Less: allowance for doubtful accounts	—	—
	\$17,447	\$12,310

Inventories

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

	December 31, 2016	January 2, 2016
	(in thousands)	
Raw materials	\$10,290	\$11,081
Work-in-progress	6,470	4,365
Finished goods	8,116	3,314
	\$24,876	\$18,760

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

Property, Plant and Equipment

	December 31, 2016	January 2, 2016
	(in thousands)	
Leasehold improvements	\$14,653	\$15,242
Machinery and equipment	41,678	42,317
	56,331	57,559
Less accumulated depreciation and amortization	45,094	45,638
Total property, plant and equipment, net	\$11,237	\$11,921

Customer Advances

Customer advances generally represent nonrefundable deposits invoiced by the Company in connection with receiving customer purchase orders and other events preceding acceptance of systems. Customer advances related to products that have not been shipped to customers and included in accounts receivable were \$53,000 at December 31, 2016.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Accounts Payable

Included in accounts payable is \$349,000 and \$582,000 of book overdraft at December 31, 2016 and January 2, 2016, respectively.

Other Accrued Liabilities

	December 31, 2016	January 2, 2016
	(in thousands)	
Deferred revenue	\$14,416	\$3,789
Accrued product warranties	829	835
Other taxes payable	660	378
Acquisition-related contingent consideration	329	179
Income taxes payable	246	234
Other	531	217
Total other accrued liabilities	\$17,011	\$5,632

Other Long-Term Liabilities

	December 31, 2016	January 2, 2016
	(in thousands)	
Deferred rent	\$2,392	\$1,190
Acquisition-related contingent consideration	430	711
Accrued income taxes	82	363
Accrued product warranties	178	147
Total other long-term liabilities	\$3,082	\$2,411

6. Purchased Intangible Assets, Net

Information regarding acquisition-related intangible assets is as follows:

	December 31, 2016			January 2, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in thousands)					
Customer relationships	\$3,119	\$2,869	\$ 250	\$3,119	\$2,646	\$ 473
Purchased technology	5,148	3,140	2,008	5,148	2,509	2,639
Covenants not to compete	40	40	—	40	40	—
Backlog	80	80	—	80	80	—
Total amortizable intangible assets	\$8,387	\$6,129	\$2,258	\$8,387	\$5,275	\$3,112

Intangible assets by segment as of December 31, 2016 are as follows: Thin-film Equipment; \$2.0 million and Photonics; \$217,000.

Total amortization expense of purchased intangibles for fiscal 2016, 2015 and 2014 was \$854,000, \$854,000, and \$936,000 respectively.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Estimated future amortization expense related to finite-lived purchased intangible assets as of December 31, 2016, is as follows.

(in thousands)	
2017	755
2018	615
2019	615
2020	273
	<u>\$2,258</u>

7. Contingent Consideration

In connection with the acquisition of SIT, Intevac agreed to pay up to an aggregate of \$7.0 million in cash to the selling shareholders if certain milestones were achieved over a specified period. Intevac has made payments to the selling shareholders for achievement of the first milestone in 2011, and for achievement of the second and third milestones in 2012. The fourth and final milestone was not achieved on the targeted date outlined in the acquisition agreement and will not be paid. There is no remaining contingent consideration obligation associated with the milestone agreement at December 31, 2016.

In connection with the acquisition of SIT, Intevac also agreed to pay to the selling shareholders in cash a revenue earnout 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 December 31, 2016 based on probability-based forecasted revenues reflecting Intevac’s own assumptions concerning future revenue from such products. As of December 31, 2016, 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 observable in the market and thus represents a Level 3 measurement. 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 December 31, 2016. Significant increases or decreases in any of these inputs even in isolation would result in a significantly lower (higher) fair value measurement.

Quantitative Information about Level 3 Fair Value Measurements at December 31, 2016

<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>
		(in thousands, except for percentages)	
Revenue Earnout	\$759	Discounted cash flow	
		Weighted-average cost of capital	15.3%
		Probability weighting of achieving revenue forecasts	10.0% - 80.0% (29.6%)

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Any change in fair value of the contingent consideration subsequent to the acquisition date is recognized in operating income within the consolidated statement of operations. The following table represents a reconciliation of the change in the fair value measurement of the contingent consideration liability for fiscal 2016, 2015 and 2014:

	2016	2015	2014
	(in thousands)		
Beginning balance	\$ 890	\$1,134	\$1,384
Changes in fair value	(100)	(244)	(250)
Cash payments made	(31)	—	—
Ending balance	<u>\$ 759</u>	<u>\$ 890</u>	<u>\$1,134</u>

8. Financial Instruments

Cash, Cash Equivalents and Investments

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

	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	\$27,043	\$—	\$—	\$27,043
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	\$17,610	\$—	\$ 8	\$17,602
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	\$ 3,607	\$ 1	\$ 15	\$ 3,593
Total cash, cash equivalents, and investments	<u>\$48,260</u>	<u>\$ 1</u>	<u>\$ 23</u>	<u>\$48,238</u>

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	January 2, 2016			
	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
	(in thousands)			
Cash and cash equivalents:				
Cash	\$ 6,208	\$—	\$—	\$ 6,208
Money market funds	7,538	—	—	7,538
Total cash and cash equivalents	\$13,746	\$—	\$—	\$13,746
Short-term investments:				
Corporate bonds and medium-term notes	\$ 9,978	\$—	\$ 7	\$ 9,971
Municipal bonds	4,238	—	—	4,238
U.S. treasury and agency securities	8,999	—	—	8,999
Total short-term investments	\$23,215	\$—	\$ 7	\$23,208
Long-term investments:				
Corporate bonds and medium-term notes	\$ 6,212	\$—	\$ 23	\$ 6,189
U.S. treasury and agency securities	3,494	—	10	3,484
Total long-term investments	\$ 9,706	\$—	\$ 33	\$ 9,673
Total cash, cash equivalents, and investments	\$46,667	\$—	\$ 40	\$46,627

The contractual maturities of available-for-sale securities at December 31, 2016 are presented in the following table.

	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	\$25,927	\$25,919
Due after one through two years	3,607	3,593
	\$29,534	\$29,512

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 December 31, 2016.

	December 31, 2016			
	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)			
Commercial paper	\$ 1,494	\$ 1	\$—	\$—
Corporate bonds and medium-term notes	9,478	17	—	—
Municipal bonds	1,096	4	—	—
U.S. treasury and agency securities	2,932	1	—	—
	\$15,000	\$23	\$—	\$—

All prices for the fixed maturity securities including U.S. treasury and agency securities, 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

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 to sell a security in an orderly transaction. 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.

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 December 31, 2016.

	Fair Value Measurements at December 31, 2016		
	Total	Level 1	Level 2
	(in thousands)		
Recurring fair value measurements:			
Available-for-sale securities			
Money market funds	\$ 8,317	\$ 8,317	\$ —
U.S. treasury and agency securities	7,029	4,097	2,932
Commercial paper	1,991	—	1,991
Corporate bonds and medium-term notes	11,079	—	11,079
Municipal bonds	1,096	—	1,096
Total recurring fair value measurements	<u>\$29,512</u>	<u>\$12,414</u>	<u>\$17,098</u>

Derivatives

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 maturities of approximately 30 days.

The following table summarizes the Company’s outstanding derivative instruments on a gross basis as recorded in its consolidated balance sheets as of December 31, 2016 and January 2, 2016:

<u>Derivative Instrument</u>	<u>Notional Amounts</u>		<u>Derivative Assets</u>				<u>Derivative Liabilities</u>			
	<u>December 31,</u>	<u>January 2,</u>	<u>December 31,</u>		<u>January 2,</u>		<u>December 31,</u>		<u>January 2,</u>	
	<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2016</u>
			<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>
			<u>Sheet</u>	<u>Sheet</u>	<u>Sheet</u>	<u>Sheet</u>	<u>Sheet</u>	<u>Sheet</u>	<u>Sheet</u>	<u>Sheet</u>
			<u>Line</u>	<u>Line</u>	<u>Line</u>	<u>Line</u>	<u>Line</u>	<u>Line</u>	<u>Line</u>	<u>Line</u>
			<u>Fair</u>	<u>Fair</u>	<u>Fair</u>	<u>Fair</u>	<u>Fair</u>	<u>Fair</u>	<u>Fair</u>	<u>Fair</u>
			<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
			(In thousands)							
Undesignated Hedges:										
Forward Foreign Currency										
Contracts	\$1,146	\$924	(a)	\$—	(a)	\$1	(b)	\$8	(b)	\$4
Total Hedges	<u>\$1,146</u>	<u>\$924</u>		<u>\$—</u>		<u>\$1</u>		<u>\$8</u>		<u>\$4</u>

- (a) Prepaid expenses and other current assets
- (b) Other accrued liabilities

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

9. 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. Under this authorization, Intevac purchases shares of its common stock under a systematic stock repurchase program and may also make supplemental stock repurchases from time to time, depending on market conditions, stock price and other factors.

On November 12, 2015, Intevac entered into a Share Repurchase Agreement with Northern Right Capital Management, L.P. and certain of its affiliated funds, including on behalf of a managed account (collectively, “NRC”), whereby Intevac repurchased 1,483,171 shares of its common stock (or approximately 6.8% of the outstanding common stock) from NRC in a privately negotiated transaction at a purchase price of \$4.98 per share, for an aggregate purchase price of \$7.4 million. The repurchase was made in conjunction with Intevac’s stock repurchase program.

At December 31, 2016, \$1.5 million remains available for future stock repurchases under the repurchase program.

The following table summarizes Intevac’s stock repurchases for fiscal 2016, 2015 and 2014:

	2016	2015	2014
	(in thousands, except per share amounts)		
Shares of common stock repurchased	—	3,419	1,185
Cost of stock repurchased	\$—	\$18,503	\$8,302
Average price paid per share	\$—	\$ 5.39	\$ 6.97

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.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

10. Income Taxes

The provision for income taxes on loss from continuing operations for fiscal 2016, 2015 and 2014 consists of the following (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Federal:			
Current	\$—	\$—	\$ (324)
Deferred	—	—	—
	—	—	(324)
State:			
Current	5	6	5
Deferred	—	—	—
	5	6	5
Foreign:			
Current	237	561	81
Deferred	9	(12)	8,666
	246	549	8,747
Total	<u>\$251</u>	<u>\$555</u>	<u>\$8,428</u>

Income (loss) before income taxes for fiscal 2016, 2015 and 2014 consisted of the following (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
U.S	\$(8,703)	\$(9,538)	\$(13,191)
Foreign	1,513	927	(5,826)
	<u>\$(7,190)</u>	<u>\$(8,611)</u>	<u>\$(19,017)</u>
Effective tax rate	<u>(3.5)%</u>	<u>(6.4)%</u>	<u>(44.3)%</u>

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of deferred tax assets are as follows (in thousands):

	<u>December 31, 2016</u>	<u>January 2, 2016</u>
Deferred tax assets:		
Vacation, warranty and other accruals	\$ 926	\$ 898
Depreciation and amortization	600	814
Intangible amortization	2,060	2,397
Inventory valuation	3,091	3,321
Deferred income	29	750
Equity-based compensation	3,821	3,612
Net operating loss, research and other tax credit carryforwards	54,844	51,186
Other	918	481
	<u>66,289</u>	<u>63,459</u>
Valuation allowance for deferred tax assets	(65,189)	(62,365)
Total deferred tax assets	<u>1,100</u>	<u>1,094</u>
Deferred tax liabilities:		
Purchased technology	(720)	(950)
Unbilled revenue	(377)	(132)
Total deferred tax liabilities	<u>(1,097)</u>	<u>(1,082)</u>
Net deferred tax assets	<u>\$ 3</u>	<u>\$ 12</u>
As reported on the balance sheet:		
Current deferred tax assets	\$ —	\$ 12
Non-current deferred tax assets	3	—
	<u>\$ 3</u>	<u>\$ 12</u>

Intevac accounts for income taxes in accordance with accounting standards for such taxes, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the financial reporting and tax bases of recorded assets and liabilities. Accounting standards also require that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion of or all of the deferred tax asset will not be realized.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant element of objective negative evidence evaluated was the cumulative loss incurred over the three-year periods ended January 3, 2015, December 31, 2013 and December 31, 2012. Such objective evidence limits the ability to consider other subjective evidence such as Intevac's projections for future growth. On the basis of this analysis and the significant negative objective evidence, for fiscal 2014, a valuation allowance of \$9.4 million was added to record only the portion of the Singapore deferred tax asset that more likely than not will be realized. The Company recorded a valuation allowance decrease of \$136,000 for fiscal 2016 and a valuation allowance increase of \$631,000 for fiscal 2015, respectively, for the Singapore deferred tax asset.

In fiscal 2012, a valuation allowance of \$23.4 million was added to record only the portion of the U.S. federal deferred tax asset that more likely than not will be realized. For fiscal 2016, 2015, 2014 and 2013,

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

valuation allowance increases of \$3.3 million, \$1.6 million, \$4.7 million and \$7.2 million, respectively for the U.S. federal deferred tax asset were recorded. A valuation allowance is recorded against the entire state deferred tax asset which consists of state income tax temporary differences and deferred research and other tax credits that are not realizable in the foreseeable future.

The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

As of December 31, 2016, our federal, foreign and state net operating loss carryforwards for income tax purposes were approximately \$66.0 million, \$60.3 million and \$63.8 million, respectively. The federal and state net operating loss carryforwards are subject to various limitations under Section 382 of the Internal Revenue Code and applicable state tax laws. If not utilized, the federal net operating loss carryforwards and the state net operating loss carryforwards will begin to expire in 2028. The foreign net operating loss carryforwards do not expire. As of December 31, 2016, our federal and state tax credit carryforwards for income tax purposes were approximately \$13.5 million and \$13.4 million, respectively. If not utilized, the federal tax credit carryforwards will begin to expire in 2019 and the state tax credits carry forward indefinitely.

The difference between the tax provision (benefit) at the statutory federal income tax rate and the tax provision (benefit) for fiscal 2016, 2015 and 2014 was as follows (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Income tax (benefit) at the federal statutory rate	\$(2,517)	\$(3,014)	\$(6,656)
State income taxes, net of federal benefit	5	6	5
Change in valuation allowance:			
U.S	3,333	1,625	4,733
Foreign	(136)	631	9,394
Effect of foreign operations taxed at various rates	(232)	(140)	1,662
Research tax credits	(1,058)	(931)	(569)
Effect of tax rate changes, permanent differences and adjustments of prior deferrals	1,137	2,114	153
Unrecognized tax benefits	(281)	264	(294)
Total	<u>\$ 251</u>	<u>\$ 555</u>	<u>\$ 8,428</u>

Intevac has not provided for U.S. federal income and foreign withholding taxes on approximately \$14.3 million of undistributed earnings from non-U.S. operations as of December 31, 2016 because Intevac intends to reinvest such earnings indefinitely outside of the United States. If Intevac were to distribute these earnings, foreign tax credits may become available under current law to reduce the resulting U.S. income tax liability. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. Intevac will remit the non-indefinitely reinvested earnings, if any, of Intevac's non-U.S. subsidiaries where excess cash has accumulated and Intevac determines that it is advantageous for business operations, tax or cash reasons.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The total amount of gross unrecognized tax benefits was \$7.5 million as of December 31, 2016, of which \$73,000 would affect Intevac’s effective tax rate if realized. The aggregate changes in the balance of gross unrecognized tax benefits were as follows for fiscal 2016, 2015 and 2014:

	2016	2015	2014
	(in thousands)		
Beginning balance	\$7,173	\$6,578	\$6,482
Additions based on tax positions related to the current year	652	574	57
Additions for tax positions of prior years	—	21	250
Settlements	(281)	—	—
Lapse of statute of limitations	—	—	(211)
Ending balance	\$7,544	\$7,173	\$6,578

The Company does not anticipate any changes in the amount of unrecognized tax benefits in the next twelve months. It is Intevac’s policy to include interest and penalties related to unrecognized tax benefits in the provision for income taxes on the consolidated statements of operations. During fiscal 2016, 2015 and 2014, Intevac recognized a net tax expense (benefit) for interest of (\$1,000), \$2,000 and (\$110,000), respectively. As of December 31, 2016 Intevac had \$9,000 of accrued interest related to unrecognized tax benefits, which was classified as a long-term liability in the consolidated balance sheets. Intevac did not accrue any penalties related to these unrecognized tax benefits because Intevac has other tax attributes which would offset any potential taxes due.

Intevac is subject to income taxes in the U.S. federal jurisdiction, and various state and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The material jurisdictions where Intevac is subject to potential examination by tax authorities for tax years after 2009 include the U.S. (Federal and California) and Singapore.

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. As a result, the Company made deposits of \$318,000 for the 2009 tax year in fiscal 2014 and \$1.1 million for the 2010 tax year in fiscal 2015, respectively. In fiscal 2016, IRAS allowed the deduction of a portion of the challenged deductions and the Company received a partial refund of \$517,000 of the contested taxes. Accordingly, the Company derecognized a portion of the tax accrual of approximately \$281,000 by reducing the income tax provision by \$281,000. The contested tax deposits of \$871,000 and \$1.4 million are included in other long-term assets at December 31, 2016 and January 2, 2016, respectively, on the consolidated balance sheets. The ultimate outcome of this examination is subject to uncertainty. 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. Based on the information currently available, the Company does not anticipate a significant increase or decrease to its unrecognized tax benefits for this matter within the next twelve months. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from this or other examinations. Presently, there are no other active income tax examinations in the jurisdictions where Intevac operates.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

11. Employee Benefit Plans

Employee Savings and Retirement Plan

In 1991, Intevac established a defined contribution retirement plan with 401(k) plan features. The plan covers all United States employees eighteen years and older. Employees may make contributions by a percentage reduction in their salaries, not to exceed the statutorily prescribed annual limit. Intevac made cash contributions of \$310,000 for fiscal 2016. Intevac did not make any cash contributions for fiscal 2015 and fiscal 2014. Employees may choose among several investment options for their contributions and their share of Intevac's contributions, and they are able to move funds between investment options at any time. Intevac's common stock is not one of the investment options. Administrative expenses relating to the plan are insignificant.

Employee Bonus Plans

Intevac has various employee bonus plans. A profit-sharing plan provides for the distribution of a percentage of pre-tax profits to substantially all of Intevac's employees not eligible for other performance-based incentive plans, up to a maximum percentage of compensation. Other plans award annual cash bonuses to Intevac's executives and key contributors based on the achievement of profitability and other specific performance criteria. Charges to expense under these plans were \$295,000, \$219,000 and \$22,000, respectively for fiscal 2016, 2015 and 2014. In fiscal 2016, 2015 and 2014, the annual bonus for certain participants in the Company's annual incentive plan will be settled with RSUs with one year vesting. Charges for bonuses in the amount of \$490,000, \$324,000 and \$554,000 for fiscal 2016, 2015 and 2014 were reported as stock compensation expense. In February 2016, the annual bonus for certain participants of the 2015 annual incentive plan was settled with RSUs with one year vesting. Thirty-four participants were granted stock awards to receive 266,000 shares of common stock with a weighted-average grant date fair value of \$4.40 per share. In February 2015, the annual bonus for certain participants of the 2014 annual incentive plan was settled with RSUs with one year vesting. Twenty-nine participants were granted stock awards to receive 133,000 shares of common stock with a weighted-average grant date fair value of \$6.85 per share. See Note 2 "Equity-Based Compensation."

12. Commitments and Contingencies

Leases

Intevac leases certain facilities under non-cancelable operating leases that expire at various times up to March 2024 and has options to renew most leases, with rentals to be negotiated. Certain of Intevac's leases contain provisions for rental adjustments. Included in other long-term liabilities on the consolidated balance sheet is \$2.4 million of deferred rent as of December 31, 2016 related to the effective rent on Intevac's long-term lease for Intevac's Santa Clara, California facility. The terms of the Company's lease of its Santa Clara, California facility include a tenant improvement allowance of up to \$1.7 million. Tenant improvement allowances are reimbursements received from the landlord for construction costs and are amortized on a straight-line basis over the lease term as a reduction in rent. The tenant improvement allowances are recorded when the Company has completed its obligations and the tenant improvement allowance is receivable. In addition, Intevac is required to maintain a standby letter of credit for \$1.0 million for this lease. This standby letter of credit is secured with \$1.0 million of restricted cash. The facility leases require Intevac to pay for all normal maintenance costs. Gross rental expense was approximately \$3.8 million, \$4.0 million and \$3.8 million for fiscal 2016, 2015, and 2014, respectively.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of December 31, 2016, future minimum lease payments are as follows.

(in thousands)	
2017	\$ 2,824
2018	2,783
2019	2,859
2020	2,790
2021	2,874
Thereafter	<u>6,777</u>
	<u>\$20,907</u>

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 judgment for intellectual property claims related to the use of its products. Such indemnification obligations may not be subject to maximum loss clauses. Historically, payments made related to these indemnifications have been immaterial.

Letters of Credit

As of December 31, 2016, we had letters of credit and bank guarantees outstanding totaling \$1.6 million, including the standby letter of credit outstanding under the Santa Clara, California facility lease and various other guarantees with its bank. These letters of credit and bank guarantees are collateralized by \$1.6 million of restricted cash.

Warranty

Intevac provides for the estimated cost of warranty when revenue is recognized. Intevac's warranty is per contract terms and for its hard disk drive, PV and DCP manufacturing systems the warranty typically ranges between 12 and 24 months from customer acceptance. For systems sold through a distributor, Intevac offers a 3 month warranty. The remainder of any warranty period is the responsibility of the distributor. During this warranty period any defective non-consumable parts are replaced and installed at no charge to the customer. The warranty period on consumable parts is limited to their reasonable usable lives. Intevac uses estimated repair or

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 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 consolidated statements of operations.

The following table displays the activity in the warranty provision account for fiscal 2016 and 2015:

	<u>2016</u>	<u>2015</u>
	<u>(in thousands)</u>	
Beginning balance	\$ 982	\$1,186
Expenditures incurred under warranties	(488)	(463)
Accruals for product warranties	943	837
Adjustments to previously existing warranty accruals	<u>(430)</u>	<u>(578)</u>
Ending balance	<u>\$1,007</u>	<u>\$ 982</u>

Legal Matters

From time to time, Intevac receives notification from third parties, including customers and suppliers, seeking indemnification, litigation support, payment of money or other actions in connection with claims made against them. In addition, from time to time, Intevac receives notification from third parties claiming that Intevac may be or is infringing their intellectual property or other rights. Intevac also is subject to various other legal proceedings and claims, both asserted and unasserted, that arise in the ordinary course of business. Although the outcome of these claims and proceedings cannot be predicted with certainty, Intevac does not believe that any of these other existing proceedings or claims will have a material adverse effect on its consolidated financial condition or results of operations.

13. Segment and Geographic Information

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 December 31, 2016 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,

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 and long-range target identification.

Information for each reportable segment for fiscal 2016, 2015 and 2014 is as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in thousands)		
<i>Net Revenues</i>			
Thin-film Equipment	\$45,253	\$39,622	\$25,290
Photonics	<u>34,871</u>	<u>35,538</u>	<u>40,260</u>
Total segment net revenues	<u>\$80,124</u>	<u>\$75,160</u>	<u>\$65,550</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in thousands)		
<i>Operating Profit (Loss)</i>			
Thin-film Equipment	\$(8,309)	\$(9,345)	\$(22,008)
Photonics	<u>5,813</u>	<u>5,206</u>	<u>8,932</u>
Total segment operating profit (loss)	<u>(2,496)</u>	<u>(4,139)</u>	<u>(13,076)</u>
Unallocated costs	<u>(5,067)</u>	<u>(4,599)</u>	<u>(6,278)</u>
Operating loss	<u>(7,563)</u>	<u>(8,738)</u>	<u>(19,354)</u>
Interest income	195	179	179
Other income (expense), net	<u>178</u>	<u>(52)</u>	<u>158</u>
Loss before income taxes	<u>\$(7,190)</u>	<u>\$(8,611)</u>	<u>\$(19,017)</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in thousands)		
<i>Depreciation and Amortization</i>			
Thin-film Equipment	\$2,710	\$2,443	\$2,379
Photonics	<u>1,736</u>	<u>1,737</u>	<u>1,834</u>
Total segment depreciation and amortization	<u>4,446</u>	<u>4,180</u>	<u>4,213</u>
Unallocated costs	<u>391</u>	<u>417</u>	<u>492</u>
Total consolidated depreciation and amortization	<u>\$4,837</u>	<u>\$4,597</u>	<u>\$4,705</u>

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	2016	2015	2014
	(in thousands)		
Capital Additions			
Thin-film Equipment	\$ 700	\$1,433	\$2,230
Photonics	2,463	749	1,203
Total segment capital additions	3,163	2,182	3,433
Unallocated	210	935	272
Total consolidated capital additions	\$3,373	\$3,117	\$3,705

	2016	2015
	(in thousands)	
Segment Assets		
Thin-film Equipment	\$ 39,503	\$29,528
Photonics	16,071	16,029
Total segment assets	55,574	45,557
Cash and investments	48,238	46,627
Restricted cash	1,602	1,780
Deferred income taxes	3	12
Other current assets	997	1,052
Common property, plant and equipment	1,039	1,218
Other assets	871	1,435
Consolidated total assets	\$108,324	\$97,681

Geographic revenue information for fiscal 2016, 2015 and 2014 is based on the location of the customer. Revenue from unaffiliated customers by geographic region/country was as follows:

	2016	2015	2014
	(in thousands)		
United States	\$42,048	\$49,034	\$51,584
Asia (*)	37,143	23,855	9,931
Europe	933	2,271	4,035
Total net revenues	\$80,124	\$75,160	\$65,550

(*) Revenues are attributable to the geographic area in which Intevac's customers are located. Net trade revenues in Asia include shipments to Singapore, China, Japan and Malaysia.

Net property, plant and equipment by geographic region at December 31 2016 and January 2, 2016 was as follows:

	December 31, 2016	January 2, 2016
	(in thousands)	
United States	\$11,148	\$10,990
Asia	89	931
Net property, plant & equipment	\$11,237	\$11,921

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

14. Restructuring Charges

During the first quarter of fiscal 2015, Intevac substantially completed implementation of the 2015 cost reduction plan (the “2015 Plan”), which reduced expenses and reduced its workforce by 3 percent. The cost of implementing the 2015 Plan was reported under cost of net revenues and operating expenses in the consolidated statements of operations. Substantially all cash outlays in connection with the 2015 Plan occurred in the first quarter of fiscal 2015. Implementation of the 2015 Plan reduced salary, wages and other employee-related expenses by approximately \$1.4 million on an annual basis.

During the first half of fiscal 2014, Intevac substantially completed implementation of the 2014 cost reduction plan (the “2014 Plan”), which reduced expenses and reduced its workforce by 6 percent. The cost of implementing the 2014 Plan was reported under cost of net revenues and operating expenses in the consolidated statements of operations. Substantially all cash outlays in connection with the 2014 Plan occurred in the first half of fiscal 2014. Implementation of the 2014 Plan reduced salary, wages and other employee-related expenses by approximately \$2.1 million on an annual basis.

As of December 31, 2016, activities related to the 2015 and 2014 Plans were complete.

The changes in restructuring reserves associated with the cost reduction plans for fiscal 2015 and 2014, are as follows.

	Severance and other employee- related costs	
	2015	2014
	(in thousands)	
Balance at the beginning of the year	\$ —	\$ —
Provision for restructuring charges	148	288
Cash payments made	<u>(148)</u>	<u>(288)</u>
Balance at the end of the year	<u>\$ —</u>	<u>\$ —</u>

15. Related Party Transaction

On November 12, 2015, Intevac entered into a Share Repurchase Agreement with Northern Right Capital Management, L.P. and certain of its affiliated funds, including on behalf of a managed account (collectively, “NRC”), whereby Intevac repurchased 1,483,171 shares of its common stock (or approximately 6.8% of the outstanding common stock) from NRC in a privately negotiated transaction at a purchase price of \$4.98 per share, for an aggregate purchase price of \$7.4 million. The repurchase was made in conjunction with Intevac’s stock repurchase program. Matthew Drapkin, a member of Intevac’s Board of Directors, is a principal of NRC and a member of BC Advisors, LLC, which is the general partner of NRC. NRC continues to beneficially own approximately 3.6% of the outstanding shares of Intevac’s common stock subsequent to the transaction.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

16. Selected Quarterly Consolidated Financial Data (Unaudited)

	Three Months Ended			
	Apr. 2, 2016	July 2, 2016	Oct. 1, 2016	Dec. 31, 2016
	(in thousands, except per share data)			
Net sales	\$13,664	\$14,918	\$22,559	\$28,982
Gross profit	3,856	6,127	8,515	11,912
Net income (loss)	(6,305)	(3,490)	(481)	2,835
Basic net income (loss) per share	\$ (0.31)	\$ (0.17)	\$ (0.02)	\$ 0.14
Diluted net income (loss) per share	\$ (0.31)	\$ (0.17)	\$ (0.02)	\$ 0.13
	Three Months Ended			
	Apr. 4, 2015	July 4, 2015	Oct. 3, 2015	Jan. 2, 2016
	(in thousands, except per share data)			
Net sales	\$19,885	\$20,458	\$18,418	\$16,398
Gross profit	6,922	7,806	4,912	6,677
Net income (loss)	(2,893)	12	(3,759)	(2,526)
Basic and diluted net income (loss) per share	\$ (0.12)	\$ —	\$ (0.17)	\$ (0.12)

Item 9. *Changes In and Disagreements With Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Management's Report on Assessment of Internal Controls Over Financial Reporting

Evaluation of Disclosure Controls and Procedures

Based on Intevac's management's evaluation (with the participation of Intevac's chief executive officer and chief financial officer), as of the end of the period covered by this report, Intevac's chief executive officer and chief financial officer have concluded that Intevac's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) are effective to ensure that information required to be disclosed by Intevac in reports that Intevac files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to Intevac's management, including Intevac's chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for Intevac. Internal control over financial reporting is a process designed 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. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management (with the participation of the chief executive officer and chief financial officer) conducted an evaluation of the effectiveness of Intevac's internal control over financial reporting based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Intevac's internal control over financial reporting was effective as of December 31, 2016. BPM LLP, an independent registered public accounting firm, has audited the effectiveness of Intevac's internal control over financial reporting and has issued a report on Intevac's internal control over financial reporting, which is included in their report on the following page.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during our fourth quarter of fiscal 2016 that has materially affected, or is reasonably likely to materially affect, Intevac's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Intevac, Inc.

We have audited the internal control over financial reporting of Intevac, Inc. (a Delaware corporation) and its subsidiaries (the “Company”) as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework* (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Assessment of Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Intevac, Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework* (2013 Framework) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2016 and January 2, 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2016 and our report dated February 15, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ BPM LLP

San Jose, California
February 15, 2017

Item 9B. Other Information

None.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item relating to the Company’s directors and nominees, disclosure relating to compliance with Section 16(a) of the Securities Exchange Act of 1934, and information regarding Intevac’s code of ethics, audit committee and stockholder recommendations for director nominees is included under the captions “Election of Directors,” “Nominees,” “Business Experience of Nominees for Election as Directors,” “Board Meetings and Committees,” “Corporate Governance Matters,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Code of Business Conduct and Ethics” in the Company’s Proxy Statement for the 2017 Annual Meeting of Stockholders and is incorporated herein by reference. The information required by this item relating to the Company’s executive officers and key employees is included under the caption “Executive Officers of the Registrant” under Item 1 in Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation

The information required by this item is included under the caption “Executive Compensation and Related Information” in the Company’s Proxy Statement for the 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Securities authorized for issuance under equity compensation plans. The following table summarizes the number of outstanding options granted to employees and directors, as well as the number of securities remaining available for future issuance, under Intevac’s equity compensation plans at December 31, 2016.

<u>Plan Category</u>	<u>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>(b) Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>(c) Number of securities remaining available for future issuance under equity compensation plans (1)</u>
Equity compensation plans approved by security holders (2)	3,689,819	\$7.00	1,377,757
Equity compensation plans not approved by security holders	—	—	—
Total	<u>3,689,819</u>	<u>\$7.00</u>	<u>1,377,757</u>

(1) Excludes securities reflected in column (a).

(2) Included in the column (c) amount are 241,597 shares available for future issuance under Intevac’s 2003 Employee Stock Purchase Plan.

The other information required by this item is included under the caption “Ownership of Securities” in the Company’s Proxy Statement for the 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is included under the captions “Certain Transactions” and “Corporate Governance Matters” in the Company’s Proxy Statement for the 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is included under the caption “Fees Paid To Accountants For Services Rendered During 2016” in the Company’s Proxy Statement for the 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statements

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements:

See “Index to Consolidated Financial Statements” in Part II, Item 8 of this Form 10-K.

All other schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the consolidated financial statements or notes thereto.

2. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1 (1)	Certificate of Incorporation of the Registrant
3.2 (2)	Bylaws of the Registrant, as amended
10.1+ (4)	The Registrant’s 2004 Equity Incentive Plan, as amended
10.2+ (5)	The Registrant’s 2003 Employee Stock Purchase Plan, as amended
10.3+ (5)	The Registrant’s 2012 Equity Incentive Plan, as amended
10.4+ (6)	Form of Restricted Stock Unit Agreement for 2012 Equity Incentive Plan
10.5+ (6)	Form of Restricted Stock Agreement for 2012 Equity Incentive Plan
10.6+ (6)	Form of Stock Option Agreement for 2012 Equity Incentive Plan
10.7 (7)	Lease dated March 20, 2014 regarding the space located at 3544, 3560, 3570 and 3580 Bassett Street, Santa Clara, California
10.8+ (3)	The Registrant’s 401(k) Profit Sharing Plan
10.9 (8)	Director and Officer Indemnification Agreement
10.10+ (7)	The Registrant’s Executive Incentive Plan
10.11+ (9)	Offer Letter with Wendell Blonigan
10.12+ (9)	Severance Agreement with Wendell Blonigan
10.13 (10)	Agreement, dated as of December 9, 2013, by and among Intevac Inc., Steven R. Becker, Matthew A. Drapkin, Becker Drapkin Management, L.P., Becker Drapkin Partners (QP), L.P., Becker Drapkin Partners, L.P., BD Partners V, L.P. and BC Advisors, LLC
10.14 (11)	Amendment No. 1, dated November 12, 2015, to Agreement, dated as of December 9, 2013, by and among Intevac, Inc., Steven R. Becker, Matthew A. Drapkin, BC Advisors, LLC, Northern Right Capital Management, L.P. (f/k/a Becker Drapkin Management, L.P.), Northern Right Capital (QP), L.P. (f/k/a Becker Drapkin Partners (QP), L.P.), and Becker Drapkin Partners, L.P.

<u>Exhibit Number</u>	<u>Description</u>
10.15+ (12)	Executive Transition Plan with Michael Russak dated January 6, 2014
10.16+ (13)	Executive Transition Plan and Agreement with Christopher Smith dated January 27, 2014
10.17+ (14)	Change in Control Agreement with Jay Cho dated December 10, 2013
10.18+ (15)	Offer Letter with James Moniz
10.19+ (15)	Change in Control Agreement with James Moniz dated October 29, 2014
10.20+ (16)	Form of Change in Control Agreement
10.21 (17)	Agreement, dated as of May 11, 2014, by and among Intevac, Inc., J. Daniel Plants, Marc T. Giles, Voce Catalyst Partners LP and Voce Capital Management LLC
10.22 (11)	Share Repurchase Agreement, dated as of November 12, 2015, by and among Intevac, Inc., Northern Right Capital Management, L.P. (f/k/a Becker Drapkin Management, L.P.), and Becker Drapkin Partners SLV, Ltd.
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
23.2	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (see page 82)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of 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 Document
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 Report on Form 8-K filed July 23, 2007
(2)	Previously filed as an exhibit to the Company's Report on Form 8-K filed March 15, 2012
(3)	Previously filed as an exhibit to the Registration Statement on Form S-1 (No. 33-97806)
(4)	Previously filed as an exhibit to the Company's Form 10-Q filed May 3, 2011
(5)	Previously filed as an exhibit to the Company's Definitive Proxy Statement filed April 13, 2016.
(6)	Previously filed as an exhibit to the Company's Form 10-Q filed May 1, 2012
(7)	Previously filed as an exhibit to the Company's Form 10-Q filed April 29, 2014
(8)	Previously filed as an exhibit to the Company's Form 10-K filed March 14, 2008
(9)	Previously filed as an exhibit to the Company's Report on Form 8-K filed July 9, 2013
(10)	Previously filed as an exhibit to the Company's Report on Form 8-K filed December 10, 2013
(11)	Previously filed as an exhibit to the Company's Report on Form 8-K filed November 12, 2015
(12)	Previously filed as an exhibit to the Company's Report on Form 8-K filed January 7, 2014

- (13) Previously filed as an exhibit to the Company's Report on Form 8-K filed January 31, 2014
- (14) Previously filed as an exhibit to the Company's Form 10-Q filed October 28, 2014
- (15) Previously filed as an exhibit to the Company's Report on Form 8-K filed October 31, 2014
- (16) Previously filed as an exhibit to the Company's Report on Form 8-K filed November 15, 2016
- (17) Previously filed as an exhibit to the Company's Report on Form 8-K filed May 15, 2014
- + Management compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(b) of Form 10-K

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on February 15, 2017.

INTEVAC, INC.

/s/ JAMES MONIZ

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Wendell T. Blonigan and James Moniz and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ WENDELL T. BLONIGAN</u> (Wendell T. Blonigan)	President, Chief Executive Officer and Director (Principal Executive Officer)	February 15, 2017
<u>/s/ JAMES MONIZ</u> (James Moniz)	Executive Vice President, Finance and Administration, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 15, 2017
<u>/s/ NORMAN H. POND</u> (Norman H. Pond)	Chairman of Board	February 15, 2017
<u>/s/ JAMES D. BENHAM</u> (James D. Benham)	Director	February 15, 2017
<u>/s/ MATTHEW A. DRAPKIN</u> (Matthew A. Drapkin)	Director	February 15, 2017
<u>/s/ DAVID S. DURY</u> (David S. Dury)	Director	February 15, 2017
<u>/s/ MARK T. GILES</u> (Mark T. Giles)	Director	February 15, 2017
<u>/s/ THOMAS M. ROHRS</u> (Thomas M. Rohrs)	Director	February 15, 2017
<u>/s/ JOHN F. SCHAEFER</u> (John F. Schaefer)	Director	February 15, 2017



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