

INTEVAC INC

FORM S-1 (Securities Registration Statement)

Filed 06/07/96

Address	3560 BASSETT STREET SANTA CLARA, CA, 95054
Telephone	4089869888
CIK	0001001902
Symbol	IVAC
SIC Code	3559 - Special Industry Machinery, Not Elsewhere Classified
Industry	Industrial Machinery & Equipment
Sector	Industrials
Fiscal Year	12/31

INTEVAC INC

FORM S-1 (Securities Registration Statement)

Filed 6/7/1996

Address	356O BASSETT ST SANTA CLARA, California 95054
Telephone	408-986-9888
CIK	0001001902
Industry	Computer Storage Devices
Sector	Technology
Fiscal Year	12/31

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

INTEVAC, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CALIFORNIA
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

3559
(PRIMARY STANDARD INDUSTRIAL
CLASSIFICATION CODE NUMBER)

94-3125814
(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

3550 BASSETT STREET
SANTA CLARA, CALIFORNIA 95054
(408) 986-9888

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF THE
REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

NORMAN H. POND
CHAIRMAN OF THE BOARD,
PRESIDENT AND CHIEF EXECUTIVE OFFICER
INTEVAC, INC.

3550 BASSETT STREET
SANTA CLARA, CALIFORNIA 95054
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(NAME AND ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA
CODE, OF AGENT FOR SERVICE)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as

practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. //

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. //

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
Common Stock, no par value.....	2,587,500 shares	\$19.625	\$50,779,686	\$17,511

(1) Includes shares which the Underwriters have the option to purchase to cover over-allotments, if any.

(2) Estimated solely for the purpose of computing the amount of registration fee pursuant to Rule 457(c). The proposed maximum offering price per share is based on the average of high and low sale prices for a share as reported on the Nasdaq National Market on June 5, 1996.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT THAT SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SUCH SECTION 8(A), MAY DETERMINE.

INTEVAC, INC.

CROSS-REFERENCE SHEET

SHOWING LOCATION IN PROSPECTUS OF INFORMATION
REQUIRED BY ITEMS OF FORM S-1

FORM S-1 REGISTRATION STATEMENT AND HEADING	HEADING OR LOCATION IN PROSPECTUS
1. Forepart of the Registration Statement and Outside Front Cover Page of Prospectus.....	Outside Front Cover Page of Prospectus
2. Inside Front and Outside Back Cover Pages of Prospectus.....	Inside Front Cover Page; Page 3; Available Information
3. Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges.....	Summary; Risk Factors; The Company
4. Use of Proceeds.....	Summary; Use of Proceeds
5. Determination of Offering Price.....	Outside Front Cover Page; Underwriting
6. Dilution.....	Dilution
7. Selling Security Holders.....	Not applicable
8. Plan of Distribution.....	Outside Front Cover Page; Summary; Underwriting
9. Description of Securities to be Registered.....	Summary; Capitalization; Description of Capital Stock
10. Interests of Named Experts and Counsel.....	Legal Matters
11. Information with Respect to the Registrant.....	Outside Cover Page; Summary; Risk Factors; The Company; Dividend Policy; Selected Consolidated Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; Business; Management; Certain Transactions; Principal and Selling Shareholders; Shares Eligible for Future Sale; Consolidated Financial Statements
12. Disclosure of Commission Position on Indemnification for Securities Act Liabilities.....	Not Applicable

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED JUNE 7, 1996

LOGO

2,250,000 SHARES

COMMON STOCK

Of the 2,250,000 shares of Common Stock offered hereby 1,500,000 shares are being sold by Intevac, Inc. ("Intevac" or the "Company") and 750,000 shares are being sold by the Selling Shareholders. See "Principal and Selling Shareholders." The Company will not receive any of the proceeds from the sale of these shares by the Selling Shareholders. On June 5, 1996, the last sale price of the Company's Common Stock as reported on the Nasdaq National Market was \$19.25 per share. See "Price Range of Common Stock." The Common Stock is quoted on the Nasdaq National Market under the symbol "IVAC."

**THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK.
SEE "RISK FACTORS" BEGINNING AT PAGE 6.**

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION

TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS	PROCEEDS TO COMPANY (1)	PROCEEDS TO SELLING SHAREHOLDERS
Per Share.....	\$	\$	\$	\$
Total(2).....	\$	\$	\$	\$

(1) Before deducting expenses, payable by the Company, estimated at \$350,000.

(2) The Company has granted to the Underwriters a 30-day option to purchase up to an additional 337,500 shares of Common Stock solely to cover over-allotments, if any. See "Underwriting." If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be \$, \$ and \$, respectively.

The Common Stock is offered by the Underwriters as stated herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that delivery of such shares will be made through the offices of Robertson, Stephens & Company LLC ("Robertson, Stephens &

Company"), San Francisco, California, on or about , 1996.

ROBERTSON, STEPHENS & COMPANY HAMBRECHT & QUIST
The date of this Prospectus is , 1996.

[INSIDE FRONT COVER GRAPHICS TO COME]

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN CONNECTION WITH THIS OFFERING, CERTAIN UNDERWRITERS AND OTHER SELLING GROUP MEMBERS, IF ANY, OR THEIR AFFILIATES MAY ENGAGE IN PASSIVE MARKET MAKING TRANSACTIONS IN THE COMMON STOCK OF THE COMPANY ON THE NASDAQ NATIONAL MARKET IN ACCORDANCE WITH RULE 10B-6A UNDER THE SECURITIES EXCHANGE ACT OF 1934. SEE "UNDERWRITING."

NO DEALER, SALES REPRESENTATIVE OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THIS OFFERING OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY, ANY SELLING SHAREHOLDER OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES OTHER THAN THE REGISTERED SECURITIES TO WHICH IT RELATES OR AN OFFER TO, OR A SOLICITATION OF, ANY PERSON IN ANY JURISDICTION WHERE SUCH OFFER OR SOLICITATION WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

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Intevac is a registered trademark of the Company, and D-Star is a trademark of the Company. This Prospectus also includes trademarks of companies other than Intevac.

SUMMARY

The following summary is qualified in its entirety by the more detailed information, including "Risk Factors," and the Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Prospectus. This Prospectus contains forward-looking statements which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this Prospectus.

THE COMPANY

Intevac, Inc. ("Intevac" or the "Company") is a leading supplier of static sputtering systems and related manufacturing equipment used to manufacture thin-film disks for computer hard disk drives. Sputtering is a complex vacuum deposition process used to deposit multiple thin-film layers on a disk. The Company's principal product, the MDP-250B, was introduced in 1994 and is the fourth generation of the Company's Magnetic Disk Processing ("MDP") system. The MDP-250B system enables disk manufacturers to achieve high coercivities, high signal-to-noise ratios, minimal disk defects, durability and uniformity, all of which are necessary in the production of high performance, high capacity disks. Additionally, the Company's static systems allow disk manufacturers to achieve low production costs through high yield, high uptime, and low acquisition, operating and facilities costs. The Company's primary objective is to be the industry leader in supplying disk sputtering equipment by providing disk sputtering systems which have both the highest overall performance and the lowest cost of ownership in the industry. To leverage its expertise in thin-film disk production, the Company has acquired and intends to acquire technologies or businesses that enable it to expand its current product offerings. In addition, the Company believes that its expertise and technology may have applications other than for thin-film disk manufacturing and is in the process of expanding its product offerings to other areas, such as the flat panel display industry.

The market for thin-film disks is growing rapidly, driven primarily by growing demand for personal computers and hard disk drives and by increasing requirements for data storage capacity. These requirements for capacity are increasing with the development of more memory intensive software, including complex operating systems such as Windows 95 and programs such as multimedia computing applications and more powerful and faster microprocessors and other computer hardware. Because of the increasing demand for reliable, rapid access storage and the intense competitiveness in the disk drive industry, disk drive manufacturers continually seek to produce higher capacity disk drives at a lower cost per megabyte of storage.

Traditionally, thin-film disk manufacturers used in-line systems for disk sputtering. In 1982, Varian formed a business unit to design a disk sputtering system to address certain inherent limitations of the in-line sputtering architecture. That business, acquired by the Company in 1991, developed a single disk, multiple chamber static sputtering system, similar in concept to the single wafer processing machines used by the semiconductor industry. The Company's static systems differ from in-line systems in that static sputtering provides for deposition with no relative movement between the sputtering source and the disk being coated. This provides advantages in disk uniformity and precise control of process parameters. The benefits of the static approach have caused a number of leading disk manufacturers to purchase the Company's static systems.

The Company typically sells its static sputtering systems for between \$2.5 million and \$3.0 million to both captive and merchant thin-film disk manufacturers. Since 1991, Intevac systems have been installed for or ordered by the following customers: Akashic Memories, Fuji Electric, Hitachi, HMT Technology, IBM, Komag, Mitsubishi, Seagate Technology, Trace Storage Technology and Western Digital. Based on data published by TrendFOCUS, an independent market research firm, the Company believes it has the largest number of installed static sputtering systems worldwide. Based upon MDP shipments, the Company believes it had 80 systems installed as of March 30, 1996. The Company sells and markets its products directly in the United States, and through exclusive distributors in Japan, Taiwan and Korea. The Company has established a subsidiary in Singapore to support customers in Southeast Asia. The Company's backlog was \$45.6 million at March 30, 1996.

THE OFFERING

Common Stock offered by the Company.....	1,500,000 shares
Common Stock offered by the Selling Shareholders....	750,000 shares
Common Stock outstanding after the Offering.....	13,750,959 shares(1)
Use of proceeds.....	For general corporate purposes, including working capital and possible acquisitions
Nasdaq National Market symbol.....	IVAC

SUMMARY FINANCIAL DATA

(in thousands, except per share data)

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED		PRO FORMA COMBINED THREE MONTHS (2)
	1993	1994	1995	APRIL 1, 1995	MARCH 30, 1996	
	-----	-----	-----	-----	-----	
STATEMENT OF OPERATIONS DATA:						
Net revenues:						
Disk, flat panel and other.....	\$ 16,026	\$ 18,266	\$42,187	\$ 4,674	\$15,126	\$ 17,596
MBE.....	6,370	2,185	695	695	--	--
	-----	-----	-----	-----	-----	-----
Total net revenues.....	22,396	20,451	42,882	5,369	15,126	17,596
Cost of net revenues:						
Disk, flat panel and other.....	9,749	11,799	27,280	3,244	9,203	11,029
MBE.....	5,417	858	434	434	--	--
	-----	-----	-----	-----	-----	-----
Total cost of net revenues.....	15,166	12,657	27,714	3,678	9,203	11,029
Gross profit.....	7,230	7,794	15,168	1,691	5,923	6,567
Operating income.....	192	2,031	8,015	480	2,657	2,903
Income from continuing operations.....	66	1,675	5,765	467	1,897	1,971
Income (loss) from discontinued operations.....	1,457	(267)	1,335	1,335	--	--
Net income.....	\$ 1,523	\$ 1,408	\$ 7,100	\$ 1,802	\$ 1,897	\$ 1,971
Income per share from continuing operations(3).....	\$ 0.01	\$ 0.16	\$.054	\$ 0.05	\$ 0.15	\$ 0.16
Net income per share(3).....	\$ 0.15	\$ 0.14	\$ 0.67	\$ 0.18	\$ 0.15	\$ 0.16
Shares used in per share calculations(3).....	10,305	10,285	10,606	10,295	12,631	12,631

	MARCH 30, 1996			PRO FORMA AS ADJUSTED(2)(4)
	ACTUAL	PRO FORMA(2)	PRO FORMA	
	-----	-----	-----	
BALANCE SHEET DATA:				
Cash, cash equivalents and short-term investments.....	\$ 16,690	\$ 6,194	\$33,275	
Working capital.....	19,851	6,787	33,868	
Total assets.....	58,604	57,246	84,327	
Long-term liabilities.....	730	730	730	
Total shareholders' equity.....	29,218	23,383	50,464	

(1) Based on the number of shares outstanding as of March 30, 1996. Excludes 928,304 shares of Common Stock issuable upon exercise of stock options outstanding as of March 30, 1996 at a weighted average exercise price of \$4.26 per share. See "Management -- 1995 Stock Option/Stock Issuance Plan," "-- Employee Stock Purchase Plan" and Note 11 of Notes to Consolidated Financial Statements. Subsequent to March 30, 1996 the Company issued options to purchase 312,500 shares of Common Stock at a weighted average exercise price of \$9.85 per share.

(2) The pro forma condensed combined statement of operations presents the combined results of Intevac, San Jose Technology Corp. ("SJT") and Lotus Technology, Inc. ("Lotus") and assumes the SJT acquisition took place on January 1, 1996 and the Lotus acquisition took place on February 1, 1996. The pro forma condensed combined statement of operations combines the historical statement of operations information for Intevac for the three months ended March 30, 1996 with the historical statement of operations for SJT for the three months ended March 31, 1996 and the historical statement of operations for Lotus for the three months ended April 30, 1996. The \$5.8 million charge relating to these acquisitions of in-process technology is excluded from the pro forma condensed combined statement of operations. The pro forma condensed combined balance sheet assumes the acquisition occurred as of March 31, 1996 for SJT and April 30, 1996 for Lotus and combines Intevac's March 30, 1996 balance sheet, SJT's March 31, 1996 balance sheet and Lotus' April 30, 1996 balance sheet. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Unaudited Pro Forma Condensed Combined Financial Statements.

(3) See Note 2 of Notes to Consolidated Financial Statements.

(4) Adjusted to reflect the sale of 1,500,000 shares of Common Stock offered by the Company hereby. See "Capitalization."

Unless otherwise indicated, all information contained in this Prospectus assumes that the Underwriters' over-allotment option is not exercised. See "Underwriting."

RISK FACTORS

In addition to the other information in this Prospectus, the following risk factors should be considered carefully in evaluating the Company and its business before purchasing shares of the Common Stock offered hereby. This Prospectus contains forward-looking statements which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this Prospectus.

FLUCTUATIONS IN OPERATING RESULTS

The Company's operating results have historically been subject to significant quarterly and annual fluctuations. The Company derives most of its net revenues from the sale of a small number of sputtering systems. The number of systems accepted by customers in any particular quarter has varied from zero to four and, as a result, the Company's net revenues and operating results for a particular period could be materially adversely affected if an anticipated order for even one system is not received in time to permit shipment and customer acceptance during that accounting period. The Company's backlog at the beginning of a quarter may not include all system orders needed to achieve the Company's sales objectives for that quarter. Orders in backlog are subject to cancellation, and although the Company generally requires a deposit on orders for its systems, such deposits may not be sufficient to cover the expenses incurred by the Company for the manufacture of the cancelled systems or fixed operating expenses associated with such systems to the date of cancellation. From time to time, in order to meet anticipated customer demand, the Company has manufactured disk sputtering systems in advance of the receipt of orders for such systems. The Company expects to continue this practice in the future. In the event that anticipated orders are not received as expected, then the Company could be materially adversely affected as the result of higher inventory levels and increased exposure to surplus and obsolete inventory write-offs. Orders may be subject to delay, deferral or rescheduling by a customer. From the date the Company receives an order, it often takes more than six months before the net revenues from such order are recognized and even longer before final payment is received. The relatively long manufacturing cycles of many of the Company's products has caused and could cause shipments of such products to be delayed from one quarter to the next, which could materially adversely affect the Company's business, financial condition and results of operations for a particular quarter. Announcements by the Company or its competitors of new products and technologies could cause customers to defer purchases of the Company's existing systems, which would have a material adverse effect on the Company's business, financial condition and results of operations.

Installing and integrating new sputtering systems into the thin-film disk manufacturing process requires a substantial investment by a customer. Therefore, customers often require a significant number of product presentations and demonstrations, as well as substantial interaction with the Company's senior management, before making a purchasing decision. Accordingly, the Company's systems typically have a lengthy sales cycle during which the Company may expend substantial funds and management time and effort with no assurance that a sale will result. Furthermore, the Company's expense levels are based, in part, on its expectations as to future net revenues. If revenue levels are below expectations, operating results are likely to be adversely affected. Net income, if any, may be disproportionately affected by a reduction in net revenues because a proportionately smaller amount of the Company's expenses varies with its net revenues. The impact of these and other factors on the Company's sales and operating results in any future period cannot be forecasted with certainty. Due to all of the foregoing factors, the Company expects its quarterly operating results to fluctuate significantly and may in certain quarters be below the expectations of public market analysts and investors. In such event it is likely the price of the Company's Common Stock would be materially adversely affected.

The Company believes that its operating results will continue to fluctuate on a quarterly and annual basis due to a variety of factors. These factors include the cyclicity of the thin-film disk manufacturing and disk drive industries, patterns of capital spending by customers, the timing of

significant orders, order cancellations and shipment reschedulings, market acceptance of the Company's products, unanticipated delays in design, engineering or production or in customer acceptance of product shipments, changes in pricing by the Company or its competitors, the timing of product announcements or introductions by the Company or its competitors, the mix of systems sold, the relative proportions of sputtering systems, system components and subassemblies, and contract research and development net revenues, the availability and cost of components and subassemblies, changes in product development costs, expenses associated with any acquisitions and exchange rate fluctuations. Over the last nine quarters the Company's operating income (loss) as a percentage of net revenues has fluctuated from approximately (32)% to 27% of net revenues. The Company anticipates that its operating margin will continue to fluctuate. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

CYCLICALITY OF THE MEDIA MANUFACTURING INDUSTRY

The Company's business depends upon capital expenditures by manufacturers of thin-film disks, including manufacturers that are opening new fabrication facilities, expanding or upgrading existing facilities or replacing obsolete equipment, which in turn depend upon the current and anticipated market demand for hard disk drives. The disk drive industry is cyclical and historically has experienced periods of oversupply. Within the past year, most media manufacturers have announced programs for capacity expansion. In addition, Hyundai has announced plans to commence media manufacturing. This industry-wide increase in capacity may lead to a period of oversupply of thin-film disks, resulting in significantly reduced demand for thin-film disk production and for the capital equipment used in such production, including the systems manufactured and marketed by the Company. In recent years, particularly in very recent periods, the disk drive industry has experienced significant growth, which, in turn, has caused significant growth in the capital equipment industry supplying manufacturers of thin-film disks. There can be no assurance that such growth will continue particularly in very recent periods. The Company anticipates that a significant portion of new orders will depend upon demand from thin-film disk manufacturers building or expanding fabrication facilities, and there can be no assurance that such demand will exist. The Company's business, financial condition and results of operations could be materially adversely affected by downturns or slowdowns in the disk drive market. See "Business -- Industry Background."

Sales of the Company'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 constructing new manufacturing facilities, all of which typically involve a significant capital commitment. In addition, the cyclical nature of the disk drive industry, among other factors, may cause prospective customers to postpone decisions regarding major capital expenditures, including purchases of the Company's systems. In the event customers delay the purchase of the Company's systems, the Company's business, financial condition and results of operations could be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

INTENSE COMPETITION

The Company experiences intense competition worldwide from three principal competitors, Ulvac Japan, Ltd. ("Ulvac"), Leybold A.G. ("Leybold") and Anelva Corporation ("Anelva"), each of which is a large manufacturer of complex vacuum equipment and thin-film disk manufacturing systems

and has sold a substantial number of thin-film disk sputtering machines worldwide. Leybold is a manufacturer of static and in-line sputtering systems, Ulvac is a manufacturer of in-line systems and Anelva is a manufacturer of static systems, and each has substantially greater financial, technical, marketing, manufacturing and other resources than the Company. The Company also experiences competition from other manufacturers of in-line sputtering systems used in thin-film disk fabrication facilities as well as the manufacturers of thin-film disks that have developed the capability to manufacture their own sputtering systems. There can be no assurance that the Company's competitors will not develop enhancements to, or future generations of, competitive products that will offer superior price or performance features or that new competitors will not enter the Company's markets and develop such enhanced products. Furthermore, the failure of manufacturers of thin-film disks currently using in-line machines and manufacturers using internally developed sputtering systems to switch to static sputtering systems in the future could adversely affect the Company's ability to increase its sputtering system market share.

In addition, the Company's three principal competitors are based in foreign countries and have cost structures and system prices based on foreign currencies. Accordingly, currency fluctuations could cause the Company's dollar-priced products to be less competitive than its competitors' products priced in other currencies. Currency fluctuations could also increase the Company's cost structure relative to those of its competitors, which could make it more difficult for the Company to maintain its competitiveness.

Given the lengthy sales cycle and the significant investment required to integrate a disk sputtering system into the manufacturing process, the Company believes that once a thin-film disk manufacturer has selected a particular supplier's disk sputtering equipment, the manufacturer generally relies upon that equipment for the specific production line application and frequently will continue to purchase its other disk sputtering equipment from the same supplier. The Company expects to experience difficulty in selling to a particular customer for a significant period of time if that customer selects a competitor's disk sputtering equipment. Accordingly, competition for customers in the disk sputtering equipment industry is particularly intense, and suppliers of disk sputtering equipment may offer pricing concessions and incentives to attract new customers, which could adversely affect the Company's business, financial condition and results of operations. Because of these competitive factors, there can be no assurance that the Company will be able to compete successfully in the future. See "Business -- Competition."

CUSTOMER CONCENTRATION

Historically, a significant portion of the Company's revenues in any particular period have been attributable to sales to a limited number of customers. The Company's largest customers change from period to period as large thin-film disk fabrication facilities are completed and new projects are initiated. Western Digital, Matsubo and Trace Storage Technology ("Trace") accounted for 21%, 14% and 11%, respectively, of the Company's total net revenues during 1993, and Trace, Matsubo, Seagate Technology ("Seagate"), Varian Associates and Komag accounted for 25%, 15%, 13%, 12% and 10%, respectively, of the Company's total net revenues during 1994. Seagate, HMT Technology and Matsubo accounted for 40%, 20% and 17%, respectively, of the Company's total net revenues during 1995.

The Company expects that sales of its products to relatively few customers will continue to account for a high percentage of its net revenues in the foreseeable future. For example, a majority of the Company's backlog as of March 31, 1996 represented orders from Seagate for a new facility Seagate is constructing in Singapore. In the event Seagate experiences a significant delay in the construction of the new facility, or to the extent Seagate defers the completion of its construction, the Company's net revenues and operating results could be materially adversely affected. In addition, Seagate recently acquired Conner Peripherals ("Conner"). Conner has significant disk media manufacturing operations, uses an internally developed in-line disk sputtering system and has never purchased a system from the Company. There can be no assurance that the combined entity will not favor Conner's

internally developed disk sputtering system over the Company's system or delay, reduce or cease purchases of the Company's products for other reasons or that this acquisition will not otherwise have a material adverse effect on the Company's business, financial condition and results of operations. None of the Company's customers has entered into a long-term agreement requiring it to purchase the Company's products. As purchases related to a particular new or expanded fabrication facility are completed, sales to that customer may decrease sharply or cease altogether. If completed contracts are not replaced on a timely basis by new orders from the same or other customers, the Company's net revenues could be adversely affected. The loss of a significant customer, any reduction in orders from any significant customer or the cancellation of a significant order from a customer, including reductions or cancellations due to customer departures from recent buying patterns, financial difficulties of a customer or market, economic or competitive conditions in the disk drive industry could materially adversely affect the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

LIMITED NUMBER OF OPPORTUNITIES

The Company's business depends upon capital expenditures by manufacturers of thin-film disks, of which there are a limited number worldwide. According to TrendFOCUS, an independent market research firm, as of the end of 1995 there were 187 installed disk sputtering lines (sputtering systems and related equipment such as plating, polishing, texturing, lubrication and test equipment as well as related handling equipment) worldwide and only 14 companies in the world with five or more installed disk sputtering lines. Therefore, winning or losing an order from any particular customer could significantly affect the Company's operating results. In addition, the Company's opportunities to sell its systems are further limited by the fact that many of the manufacturers of thin-film disks have adopted an in-line approach as opposed to the Company's static approach to thin-film disk manufacturing. These manufacturers have invested significant amounts of capital in their in-line systems, and there may be significant resistance to change to a static approach in the future. At times the Company has derived a significant proportion of its net revenues from sales of its systems to manufacturers constructing new thin-film disk fabrication facilities. The construction of new thin-film disk fabrication facilities involves extremely large capital expenditures, resulting in few thin-film disk fabrication facilities being constructed worldwide at any particular time. A substantial investment is also required by disk manufacturers to install and integrate additional thin-film disk manufacturing equipment in connection with upgrading or expanding their existing fabrication facilities. These costs are far in excess of the cost of purchasing the Company's system. The magnitude of such capital expenditures has caused certain thin-film disk manufacturers to forego purchasing significant additional thin-film disk manufacturing equipment. Consequently, only a limited number of opportunities for the Company to sell its systems may exist at any given time. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business -- Sales Channel, Customers and Marketing."

RAPID TECHNOLOGICAL CHANGE

The disk drive industry in general, and the thin-film disk manufacturing industry in particular, are characterized by rapid technological change and evolving industry standards. As a result, the Company must continue to enhance its existing systems and to develop and manufacture new systems with improved capabilities. This has required and will continue to require substantial investments by the Company in research and development to advance its technologies. The failure to develop, manufacture and market new systems, or to enhance existing systems, would have a material adverse effect on the Company's business, financial condition and results of operations. In the past, the Company has experienced delays from time to time in the introduction of, and certain technical difficulties with certain of its systems and enhancements. In addition, the Company's competitors can be expected to continue to develop and introduce new and enhanced products, any of which could cause a decline in market demand for the Company's systems or a reduction in the Company's margins as a result of intensified price competition.

Changes in the manufacturing processes for thin-film disks could also have a material adverse effect on the Company's business, financial condition and results of operations. The Company anticipates continued changes in the requirements of the disk drive industry and thin-film disk manufacturing technologies. There can be no assurance that the Company will be able to develop, manufacture and sell systems that respond adequately to such changes. In addition, the data storage industry is subject to constantly evolving technological standards. There can be no assurance that future technological innovations will not reduce demand for thin-film disks. The Company's business, financial condition and results of operations could be materially adversely affected by any trend toward technology that would replace thin-film disks as a storage medium.

The Company's success in developing and selling new and enhanced systems depends upon a variety of factors, including accurate prediction of future customer requirements, technology advances, cost of ownership, introduction of new products on schedule, cost-effective manufacturing and product performance in the field. The Company's new product decisions and development commitments must anticipate the requirements for the continuously evolving disk drive industry approximately two or more years in advance of sales. Any failure to accurately predict customer requirements and to develop new generations of products to meet those requirements would have a sustained material adverse effect on the Company's business, financial condition and results of operations. New product transitions could adversely affect sales of existing systems, and product introductions could contribute to quarterly fluctuations in operating results as orders for new products commence and orders for existing products decline. There can be no assurance that the Company will be successful in selecting, developing, manufacturing and marketing new products or enhancements of existing products. See "Business -- Research and Development."

MANAGEMENT OF EXPANDING OPERATIONS

The Company has recently experienced a period of rapid expansion in its operations that has placed, and could continue to place, a significant strain on the Company's management and other resources. The Company's ability to manage its expanding operations effectively will require it to continue to improve its operational, financial, and management information systems, and to train, motivate and manage its employees. If the Company's management is unable to manage its expanding operations effectively, the Company's results of operations could be adversely affected.

The Company's operating results will depend in significant part upon its ability to retain and attract qualified management, engineering, manufacturing, marketing, customer support and sales personnel. The Company has recently undertaken to attempt to hire a significant number of qualified technical and marketing personnel. Competition for such personnel is intense and the Company has had difficulties attracting such personnel, and there can be no assurance that the Company will be successful in attracting and retaining such personnel. The failure to attract and retain such personnel could make it difficult to undertake or could significantly delay the Company's research and development efforts and the expansion of its manufacturing capabilities or other activities, which could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Employees."

MANUFACTURING RISKS

The Company's systems have a large number of components and are highly complex. The Company may experience delays and technical and manufacturing difficulties in future introductions or volume production of new systems or enhancements. In addition, some of the systems built by the Company must be customized to meet individual customer site or operating requirements. The Company has limited manufacturing capacity and may be unable to complete the development or meet the technical specifications of its new systems or enhancements or to manufacture and ship these systems or enhancements in a timely manner. Such an occurrence would materially adversely affect the Company's business, financial condition and results of operations as well as its relationships with customers. In addition, the Company may incur substantial unanticipated costs early in a product's life cycle, such as increased cost of materials due to expediting charges, other purchasing inefficiencies and

greater than expected installation and support costs which cannot be passed on to the customer. Any of such events could materially adversely affect the Company's business, financial condition and results of operations. Due to recent increases in demand, the average time between order and shipment of the Company's systems may increase substantially in the future. The Company's ability to quickly increase its manufacturing capacity in response to short-term increases in demand, if any, could be limited given the complexity of the manufacturing process, the lengthy lead times necessary to obtain critical components and the need for highly skilled personnel. The failure of the Company to satisfy any such short-term increases in demand and to keep pace with customer demand would lead to further extensions of delivery times, which could deter customers from placing additional orders, and could adversely affect product quality, which could have a materially adverse effect on the Company's business, financial condition and results of operations.

In certain instances, the Company is dependent upon a sole supplier or a limited number of suppliers, or has qualified only a single or limited number of suppliers, for certain complex components or sub-assemblies utilized in its products. In addition, the Company makes extensive use of suppliers serving the semiconductor equipment business, and such suppliers may choose to give priority to their semiconductor equipment customers that are much larger than the Company. Any prolonged inability to obtain adequate deliveries could require the Company to pay more for inventory, parts and other supplies, seek alternative sources of supply, delay its ability to ship its products and damage relationships with current and prospective customers. Any such delay or damage could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company conducts substantially all of its manufacturing activities at its leased facilities in Santa Clara, California. The Company's Santa Clara facility is located in a seismically active area. A major catastrophe (such as an earthquake or other natural disaster) could result in a prolonged interruption of the Company's business. See "Business -- Manufacturing."

FLAT PANEL DISPLAY MANUFACTURING EQUIPMENT RISKS

In 1995, the Company spent approximately \$2.5 million to fund the development of equipment for use in the flat panel display ("FPD") industry, approximately 72% which was paid for by third parties. In exchange for certain development funding, the Company has granted to one of its development partners the exclusive rights to manufacture and market the Company's FPD sputtering systems in Japan. The Company has limited experience in the development, manufacture, sale and marketing of FPD manufacturing equipment, having sold only two rapid thermal processing ("RTP") systems to date and having not yet completed development of its FPD sputtering system. FPD sputtering systems are designed to coat glass panels with thin films of various materials. The coated glass panels are used in the manufacture of FPD screens. There can be no assurance that the market for FPD manufacturing equipment targeted by the Company will develop as quickly or to the degree that the Company currently anticipates, or that the Company's proposed FPD manufacturing equipment will achieve customer acceptance or that the Company will achieve any net revenues from the sale of proposed FPD manufacturing equipment. There can be no assurance that the Company will receive additional customer sponsored research and development funding in the future. The failure to receive additional customer sponsored research and development funds could result in the Company internally funding the development of such FPD manufacturing equipment and the costs of such research and development may have a material adverse effect on the Company's results of operations. There can be no assurance that the Company in any event will continue to fund research and development in the FPD area. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business -- Flat Panel Display Project" and "-- Research and Development."

RISKS ASSOCIATED WITH INTERNATIONAL SALES AND OPERATIONS

Sales to customers in countries other than the United States accounted for 32%, 40%, 20% and 45% of revenues in 1993, 1994, 1995 and the first three months of 1996, respectively. The Company anticipates that international sales will continue to account for a substantial portion of net revenues in the future. In addition, the Company has orders from Seagate, a domestic customer, to deliver and

install a significant number of machines in Seagate's manufacturing facility in Singapore. In order to effectively service customers located in Singapore and the surrounding region, the Company has established a sales and service operation in Singapore. Sales and operating activities outside of the United States are subject to certain inherent risks, including fluctuations in the value of the United States dollar relative to foreign currencies, tariffs, quotas, taxes and other market barriers, political and economic instability, restrictions on the export or import of technology, potentially limited intellectual property protection, difficulties in staffing and managing international operations and potentially adverse tax consequences. There can be no assurance that any of these factors will not have a material adverse effect on the Company's business, financial condition or results of operations. In particular, although the Company's international sales have been denominated in United States dollars, such sales and expenses may not be denominated in dollars in the future, and currency exchange fluctuations in countries where the Company does business could materially adversely affect the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

PATENTS AND OTHER INTELLECTUAL PROPERTY

The Company currently has 23 patents issued in the United States, and has pending patent applications in the United States and foreign countries. Of the 23 patents, seven relate to sputtering, 11 relate to RTP, one relates to lubrication systems and four relate to other areas not in Intevac's mainstream business. The Company has the right to utilize certain patents under licensing arrangements with Litton Industries, Varian Associates, Stanford University, Lawrence Livermore Radiation Laboratories and Alum Rock Technology. There can be no assurance that any of the Company's patent applications will be allowed or that any of the allowed applications will be issued as patents. There can be no assurance that any patent owned by the Company will not be invalidated, deemed unenforceable, circumvented or challenged, that the rights granted thereunder will provide competitive advantages to the Company or that any of the Company's pending or future patent applications will be issued with claims of the scope sought by the Company, if at all. Furthermore, there can be no assurance that others will not develop similar products, duplicate the Company's products or design around the patents owned by the Company. In addition, there can be no assurance that foreign patent rights, intellectual property laws or the Company's agreements will protect the Company's intellectual property rights. Failure to protect the Company's intellectual property rights could have a material adverse effect upon the Company's business, financial condition and results of operations.

There have also been substantial amounts of litigation in the technology industry regarding intellectual property rights. The Company has from time to time received claims that it is infringing third parties' intellectual property rights. In August 1993, Rockwell International Corporation ("Rockwell") sued the Federal government alleging infringement of certain patent rights with respect to the contracts the Federal government has had with a number of companies, including Intevac. The Federal government has notified Intevac that it may be liable to the Federal government in connection with contracts for certain products from the Company's discontinued night vision business. Although the Company believes it will have no material liability to the Federal government under these contracts, there can be no assurance that the resolution of the claims by Rockwell with the Federal government will not have a material adverse effect on the Company's business, operating results and financial condition. In addition, the Company has recently become aware that a third party has sent correspondence to a consortium, of which the Company is a party, in a proposed government sponsored research and development program claiming that the work to be done under this program may infringe patents owned by this third party. The Company and its subcontractors have reviewed the correspondence and patents and believe these claims are without merit; however, there can be no assurance that litigation will not result from such development program. There can be no assurance that other third parties will not in the future claim infringement by the Company with respect to current or future patents, trademarks or other proprietary rights relating to the Company's disk sputtering systems, flat panel display manufacturing equipment or other products. Any present or future claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or

licensing agreements, if required, may not be available on terms acceptable to the Company, or at all. Any of the foregoing could have a material adverse effect upon the Company's business, operating results and financial condition. In addition, the Company believes that one of its competitors may be infringing the Company's patent rights in connection with products currently being offered by this competitor. Although the Company has not undertaken formal legal proceedings, the Company has informed this competitor that the Company believes its patent rights are being infringed and that the Company may undertake litigation to protect its patent rights if necessary. If undertaken, such litigation could be costly, time-consuming and result in legal claims being made against the Company. This could have a material adverse effect on the Company's business, operating results and financial condition, and, in addition, there could be no assurance that the Company would ultimately prevail in any such litigation. See "Business -- Patents and Intellectual Property."

DEPENDENCE ON KEY EMPLOYEES

The Company's operating results will depend significantly upon the continued contributions of its officers and key management, engineering, marketing, customer support and sales personnel, many of whom would be difficult to replace. The Company does not have an employment agreement with any of its employees or maintain key person life insurance with respect to any employee. The loss of any key employee could have a material adverse effect on the Company's business, financial condition and results of operations. Employees of the Company are currently required to enter into a confidentiality agreement as a condition of their employment. However, these agreements do not expressly prohibit the employees from competing with the Company after leaving its employ. See "Business -- Employees."

ACQUISITIONS

The Company's business strategy includes acquiring technologies or businesses that enable it to expand its current product offerings in the thin-film disk manufacturing market. The Company has completed three acquisitions during 1996 and expects that it may pursue additional acquisitions in the future. Any future acquisitions may result in potentially dilutive issuances of equity securities, the incurrence of debt, cash payments and contingent liabilities and amortization expense related to intangible assets acquired, any of which could materially adversely affect the Company's business, financial condition and results of operations. In particular, the Company will not be able to use the "pooling of interests" method of accounting, due to a shareholder being greater than a 50% holder of the Company's Common Stock prior to the Company's initial public offering, in connection with any acquisition consummated prior to November 21, 1997, and the Company will therefore be required to amortize any intangible assets acquired in connection with any additional acquisitions consummated during that period.

The Company expects to incur a charge to operations currently estimated to be approximately \$5.8 million in the quarter ended June 29, 1996, to reflect the purchase of in-process research and development pursuant to the two acquisitions subsequent to March 30, 1996. In addition, the Company intends to amortize intangible assets of approximately \$10.1 million of costs relating to the two acquisitions subsequent to March 30, 1996 as well as the acquisition completed during the first quarter of 1996. The amortization period for such costs will be over useful lives, which range from two years to seven years. Such amounts are preliminary estimates and therefore subject to change. Additional, unanticipated expenses may be incurred relating to the integration of technologies and research and development and administrative functions. Any acquisition will involve numerous risks, including difficulties in the assimilation of the acquired company's employees, operations and products, uncertainties associated with operating in new markets and working with new customers, the potential loss of the acquired company's key employees as well as the costs associated with completing the acquisition and integrating the acquired company. See "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business -- Strategy."

ENVIRONMENTAL REGULATIONS

The Company is subject to a variety of governmental regulations relating to the use, storage, discharge, handling, emission, generation, manufacture, treatment and disposal of toxic or other hazardous substances, chemicals, materials or waste. Any failure to comply with current or future regulations could result in substantial civil penalties or criminal fines being imposed on the Company, or its officers, directors or employees, suspension of production, alteration of its manufacturing process or cessation of operations. Such regulations could require the Company to acquire expensive remediation or abatement equipment or to incur substantial expenses to comply with environmental regulations. Any failure by the Company to properly manage the use, disposal or storage of, or adequately restrict the release of, hazardous or toxic substances could subject the Company to significant liabilities. See "Business -- Environmental Regulations."

VOLATILITY OF STOCK PRICE

The Company believes that factors such as announcements of developments related to the Company's business, fluctuations in the Company's operating results, failure to meet securities analysts' expectations, general conditions in the disk drive and thin-film media manufacturing industries and the worldwide economy, announcements of technological innovations, new systems or product enhancements by the Company or its competitors, fluctuations in the level of cooperative development funding, acquisitions, changes in governmental regulations, developments in patents or other intellectual property rights and changes in the Company's relationships with customers and suppliers could cause the price of the Company's Common Stock to fluctuate substantially. In addition, in recent years the stock market in general, and the market for small capitalization and high technology stocks in particular, has experienced extreme price fluctuations which have often been unrelated to the operating performance of affected companies. Such fluctuations could adversely affect the market price of the Company's Common Stock. Many companies in the disk drive industry, including the Company, have recently experienced historic highs in the market price for their common stock. There can be no assurance that the Company's Common Stock will not decline substantially from its historic highs or otherwise experience significant fluctuations in the future. See "Price Range of Common Stock."

CONCENTRATION OF STOCK OWNERSHIP

Upon completion of this offering, the present directors and their affiliates and executive officers will, in the aggregate, own beneficially approximately 64.8% of the Company's outstanding shares of Common Stock assuming no exercise of the underwriters' over allotment option, and 63.3% of the Company's outstanding shares of Common Stock assuming full exercise of the underwriters' over-allotment option. As a result, these shareholders, acting together, would be able to effectively control all matters requiring approval by the shareholders of the Company, including the election of a majority of the directors and approval of significant corporate transactions. See "Principal and Selling Shareholders."

SHARES ELIGIBLE FOR FUTURE SALE

Sales of a substantial number of shares of Common Stock in the public market following this offering could adversely affect the market price for the Company's Common Stock. The number of shares of Common Stock available for sale in the public market is limited by restrictions under the Securities Act of 1933, as amended (the "Securities Act"), and lock-up agreements under which the holders of such shares have agreed not to sell or otherwise dispose of any of their shares for a period of 90 days after the date of this Prospectus without the prior written consent of Robertson, Stephens & Company LLC. However, Robertson, Stephens & Company LLC may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements. As a result of lock-up agreements, based on 13,750,959 shares outstanding as of March 30, 1996, the following shares of Common Stock will be eligible for future sale. On the date of this Prospectus, 4,907,448 shares, including the 2,250,000 shares offered hereby, will be eligible for sale. In addition,

6,043,511 shares (and, to the extent vested, an additional 928,304 shares subject to outstanding stock options as of March 30, 1996) will be eligible for sale 90 days after the date of this Prospectus upon expiration of lock-up agreements. Upon the expiration of the lock-up period (or earlier upon the consent of Robertson, Stephens & Company LLC), 5,883,333 of these shares (including shares issuable upon exercise of outstanding options) will become eligible for sale subject to the volume restrictions of Rule 144 and 160,178 of these shares will become eligible for sale without restrictions under Rule 144. In addition to these shares, 2,800,000 shares held by certain funds associated with Dougery & Wilder are not subject to lock up and would be eligible for sale subject to the volume restrictions of Rule 144. If those shares are distributed by such Dougery & Wilder funds to the partners in these funds, a substantial number of those shares would be eligible for sale without restrictions under Rule 144. See "Shares Eligible for Future Sale." After this offering, the holders of 7,950,622 shares of Common Stock will be entitled to certain demand and piggyback registration rights with respect to such shares. If such holders, by exercising their demand registration rights, cause a large number of shares to be registered and sold in the public market, such sales could have an adverse effect on the market price for the Company's Common Stock. If the Company were required to include a Company-initiated registration shares held by such holders pursuant to the exercise of their piggyback registration rights, such sales may have an adverse effect on the Company's ability to raise needed capital. See "Description of Capital Stock -- Registration Rights."

The Company has filed registration statements on Form S-8 to register shares of Common Stock reserved for issuance under its stock incentive and employee stock purchase plans. Shares of Common Stock issued pursuant to these plans from time to time will be available for sale in the public market, subject to Rule 144 volume limitations applicable to affiliates.

THE COMPANY

Intevac, Inc. ("Intevac" or the "Company") was formed in 1990 for the purpose of acquiring certain businesses, assets and liabilities from Varian Associates, Inc. ("Varian"). In February 1991, the Company acquired Varian's disk sputtering equipment business, night vision device business and molecular beam epitaxy ("MBE") equipment business. The night vision device business designed, manufactured and sold night vision goggles and devices for military and commercial customers. The MBE business designed, manufactured and sold molecular beam epitaxy machines used for the design and production of advanced materials.

In October 1993, certain assets of the MBE division were exchanged for a 20% ownership in the outstanding stock of Chorus Corporation ("Chorus"), a St. Paul, Minnesota manufacturer of molecular beam epitaxy products. The Company retained the rights to sell certain residual assets of the MBE business not exchanged with Chorus Corporation. Disposition of these assets was completed during the first quarter of 1995.

In 1994, the Company purchased certain assets from Aktis Corporation and purchased certain patents from Baccarat Electronics, Inc. which formed the genesis of the Company's Rapid Thermal Processing ("RTP") business. The Company is developing an RTP system for use in the production of flat panel displays under government research and development contracts with the United States Department of Defense's Advanced Research Projects Agency ("ARPA"). To date the Company has sold two RTP systems.

In May 1995, the Company completed the sale of its night vision business to Litton Systems, Inc. for cash. The Company retained certain engineering personnel from the night vision business as well as some government contracts for research and development work in photocathodes, various applications of that technology and development of processes for making thin-film transistors with sputtered materials. This activity was organized with the RTP business to form the Advanced Technology Division ("ATD"). ATD expects to continue this type of work and will seek continued customer support for research and development activities.

In July 1995, the Company entered into an agreement to transfer its leasehold interest in the Ground Lease with The Board of Trustees of the Leland Stanford Junior University for the former Palo Alto site of its discontinued night vision operations (the "Palo Alto Site") to 601 California Avenue LLC, a California limited liability company (the "LLC"), a company formed and owned by most of the shareholders of the Company, in which the Company owns an interest in the form of a Preferred Share. The Ground Lease is fully paid and expires in the year 2053. The leasehold interest was transferred in exchange for a Preferred Share in the LLC valued at \$3.9 million and having an aggregate liquidation preference equal to the current fair market value of the Palo Alto Site. The Company and the LLC will cross-indemnify each other for potential environmental claims relating to acts prior to and subsequent to the transfer of the Palo Alto Site, respectively. The Preferred Share in the LLC accrues an annual 10% cumulative preferred return which is not payable until the property is developed and is generating operating cash flow, which is not expected prior to the end of 1998, if at all. The Preferred Share is currently recorded on the Company's books at \$2.4 million which represents the Company's historical carrying value with the leasehold interest in the Palo Alto Site. The Company is accounting for the investment under the cost method. The annual 10% cumulative preferred return is not payable until the Site is developed and generating cash flow. There is no assurance that the cumulative preferred return will ever be paid.

In August 1995, the Company agreed with its Series A Preferred shareholders to exchange all of its outstanding Series A Preferred shares for shares of Common Stock. Each share of Series A Preferred Stock was exchanged for two-thirds of a share of Common Stock and \$0.76, which was based on a valuation from an independent appraiser. The Company paid a total of \$9.9 million to its Series A Preferred shareholders as part of this exchange transaction.

In August 1995, the Company declared a one time dividend of \$0.495 per outstanding share of Common Stock. An aggregate of \$4.9 million of dividends were paid to the Company's Common shareholders. The Company has no plans to pay dividends in the future. See "Dividend Policy."

In August 1995, the Company sold its 20% ownership in Chorus, which represented 1,250,000 shares of Chorus stock to an individual for \$500,000 in cash and a note for \$2,380,000. This note bears interest at 12.5% per year with principal and interest payable in installments through August 1997. The note is secured by 1,033,000 shares of Chorus stock. The sales price of the Chorus stock exceeded the net carrying value of the Company's investment in Chorus by approximately \$1,800,000. Due to the inherent uncertainties regarding the performance of an individual making the remaining installment payments on the note, the Company will defer the gain on the sale and recognize it under the cost recovery method.

During 1995, the Company redeemed all the outstanding shares of its redeemable Series 1 Preferred Stock held by Varian for \$6.1 million in cash. The Series 1 Preferred Stock was issued to Varian in connection with the acquisition of certain Varian assets by the Company in 1991.

In January 1996, the Company acquired Cathode Technology Corporation, a developer of advanced sputter source technology for the production of disks used in computer hard disk drives, for approximately \$1.1 million in cash and \$2.0 million in notes. The notes bear interest at 5.58% compounded monthly and payable quarterly. Principal payments on the notes are made quarterly based on unit sales of Cathode Technology sputter sources. Any remaining balance due on the notes on January 24, 2001 is due, in full, regardless of sputter source sales.

In May 1996, the Company acquired San Jose Technology Corp., a manufacturer of systems used to lubricate thin-film disk, for approximately \$3.7 million in cash.

In June 1996, the Company acquired Lotus Technologies, Inc., a manufacturer of contact stop/start test equipment for disk drives and drive components, for approximately \$8.3 million in cash.

The Company was incorporated under the laws of the State of California in October 1990. Its executive offices are located at 3550 Bassett Street, Santa Clara, California 95054, and its telephone number is (408) 986-9888.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 1,500,000 shares of Common Stock offered by the Company hereby at an assumed public offering price of \$19.25 are estimated to be approximately \$27,081,250 (\$33,253,281 if the Underwriters' overallotment option is exercised in full), after deducting estimated underwriting discounts and commissions and offering expenses. The Company expects to use the net proceeds of this offering for general corporate purposes, including working capital and also expects that a portion of the net proceeds may be used for the acquisition of businesses, products and technologies that are complementary to those of the Company. The Company has no present plans, agreements or commitments and is not currently engaged in any negotiations with respect to any such transaction. Pending such uses, the net proceeds of this offering will be invested in investment grade, interest-bearing securities.

The Company will not receive any proceeds from the sale of the shares of Common Stock offered by the Selling Shareholders hereby.

PRICE RANGE OF COMMON STOCK

The Company's Common Stock commenced trading on the Nasdaq National Market following the Company's initial public offering on November 21, 1995 and is traded under the symbol "IVAC." Prior to the initial public offering, there was no public market for the Company's Common Stock. The following table sets forth for the periods indicated the high and low closing sale prices for the Common Stock as reported on the Nasdaq National Market. See "Risk Factors -- Volatility of Stock Price."

	HIGH	LOW
	-----	-----
Year ended December 31, 1995		
Quarter ended December 31, 1995 (from November 21, 1995).....	\$ 7	\$6 1/4
Year ended December 31, 1996		
Quarter ended March 30, 1996.....	\$8 1/4	\$6 1/8
Quarter ended June 30, 1996 (through June 5, 1996).....	\$ 26	\$6 5/8

On June 5, 1996, the closing sales price of the Common Stock as reported on the Nasdaq National Market was \$19.25 per share. As of March 30, 1996, there were approximately 550 holders of record of the Common Stock.

DIVIDEND POLICY

In August 1995, the Company paid a cash dividend of \$0.495 on each share of Common Stock outstanding as of the August 25, 1995 record date. The Company currently anticipates that it will retain its earnings, if any, for use in the operation of its business and does not expect to pay cash dividends on its capital stock in the foreseeable future. See "The Company."

CAPITALIZATION

The following table sets forth the capitalization of the Company (i) as of March 30, 1996, (ii) on a pro forma basis giving effect to the acquisitions of SJT and Lotus and (iii) on a pro forma as adjusted basis to reflect the sale by the Company of 1,500,000 shares of Common Stock offered hereby at an assumed public offering price of \$19.25 per share after deducting the estimated underwriting discounts and commissions and offering expenses. See "Use of Proceeds."

	MARCH 30, 1996 ACTUAL	PRO FORMA(1)	PRO FORMA AS ADJUSTED
	(IN THOUSANDS, EXCEPT SHARE DATA)		
	-----	-----	-----
Long-term liabilities.....	\$ 730	\$ 730	\$ 730
Shareholders' equity:			
Undesignated Preferred Stock, no par value, 10,000,000 shares authorized, no shares issued and outstanding actual, pro forma or pro forma as adjusted.....	--	--	--
Common Stock, no par value, 50,000,000 shares authorized, 12,250,959 shares issued and outstanding actual and pro forma, and 13,750,959 shares issued and outstanding pro forma as adjusted(2).....	15,305	15,305	42,386
Retained earnings.....	13,913	8,078	8,078
Total shareholders' equity.....	29,218	23,383	50,464
Total capitalization.....	\$29,948	\$ 24,113	\$51,194
	=====	=====	=====

(1) The pro forma condensed combined balance sheet assumes the acquisition occurred as of March 31, 1996 for SJT and April 30, 1996 for Lotus and combines Intevac's March 30, 1996 balance sheet, SJT's March 31, 1996 balance sheet and Lotus' April 30, 1996 balance sheet. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Unaudited Pro Forma Condensed Combined Financial Statements.

(2) Excludes (i) 928,304 shares of Common Stock issuable upon exercise of stock options outstanding as of March 30, 1996 at a weighted average exercise price of \$4.26 per share, (ii) 950,000 shares of Common Stock reserved for grant of future options or direct issuances under the Company's 1995 Stock Option/Stock Issuance Plan and (iii) 250,000 shares of Common Stock reserved for issuance under the Employee Stock Purchase Plan. Subsequent to March 30, 1996 the Company issued options to purchase 312,500 shares of Common Stock at a weighted average exercise price of \$9.85 per share. See "Management -- 1995 Stock Option/Stock Issuance Plan," "-- Employee Stock Purchase Plan," and Note 11 of Notes to Consolidated Financial Statements.

SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's consolidated financial statements and notes thereto, the unaudited pro forma condensed financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in the Prospectus. The historical consolidated statement of operations data for the years ended December 31, 1993, 1994 and 1995, and the consolidated balance sheet data as of December 31, 1994 and 1995, are derived from audited consolidated financial statements of the Company included herein. The historical consolidated balance sheet data as of December 31, 1991, 1992 and 1993, and the historical consolidated statement of operations data for the years ended December 31, 1991 and 1992 have been derived from audited consolidated financial statements not included herein. The historical consolidated statement of operations data for the three month periods ended April 1, 1995 and March 30, 1996 are derived from the Company's unaudited condensed consolidated financial statements included herein, which have been prepared on the same basis as the Company's audited consolidated financial statements and, in the opinion of management, contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results of operations for such periods. The unaudited selected pro forma financial data are derived from the unaudited pro forma combined condensed financial statements, appearing elsewhere herein, which give effect to the SJT and Lotus acquisitions, and should be read in conjunction with the pro forma statements and notes thereto. The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the SJT and Lotus acquisitions had been consummated as of the earliest period presented, nor necessarily indicative of the future operating results or financial position of the Company.

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED		PRO FORMA COMBINED THREE MONTHS (2)
	1991(1)	1992	1993	1994	1995	APRIL 1, 1995	MARCH 30, 1996	
	(IN THOUSANDS, EXCEPT PER SHARE DATA)							
STATEMENT OF OPERATIONS DATA:								
Net revenues:								
Disk, flat panel and other.....	\$22,118	\$17,744	\$16,026	\$18,266	\$42,187	\$ 4,674	\$15,126	\$17,596
MBE(3).....	6,723	9,606	6,370	2,185	695	695	--	--
Total net revenues.....	28,841	27,350	22,396	20,451	42,882	5,369	15,126	17,596
Cost of net revenues:								
Disk, flat panel and other.....	12,127	10,946	9,749	11,799	27,280	3,244	9,203	11,029
MBE(3).....	4,576	6,564	5,417	858	434	434	--	--
Total cost of net revenues.....	16,703	17,510	15,166	12,657	27,714	3,678	9,203	11,029
Gross profit.....	12,138	9,840	7,230	7,794	15,168	1,691	5,923	6,567
Operating expenses:								
Research and development.....	1,788	2,887	3,142	3,515	2,603	340	1,379	1,568
Selling, general and administrative.....	3,560	3,743	3,896	2,248	4,550	871	1,887	2,096
Total operating expenses.....	5,348	6,630	7,038	5,763	7,153	1,211	3,266	3,664
Operating income.....	6,790	3,210	192	2,031	8,015	480	2,657	2,903
Other income (expense), net.....	(1,569)	826	(201)	470	929	234	261	130
Income (loss) from continuing operations before income taxes.....	5,221	4,036	(9)	2,501	8,944	714	2,918	3,033
Provision for (benefit from) income taxes.....	1,369	1,655	(75)	826	3,179	247	1,021	1,062
Income from continuing operations.....	3,852	2,381	66	1,675	5,765	467	1,897	1,971
Income (loss) from discontinued operations.....	(1,911)	2,610	1,457	(267)	1,335	1,335	--	--
Net income.....	\$ 1,941	\$ 4,991	\$ 1,523	\$ 1,408	\$ 7,100	\$ 1,802	\$ 1,897	\$ 1,971
Per share:								
Income from continuing operations....	\$ 0.40	\$ 0.24	\$ 0.01	\$ 0.16	\$ 0.54	\$ 0.05	\$ 0.15	\$ 0.16
Net income.....	\$ 0.20	\$ 0.50	\$ 0.15	\$ 0.14	\$ 0.67	\$ 0.18	\$ 0.15	\$ 0.16
Shares used in per share calculations(4).....								
	9,678	10,056	10,305	10,285	10,606	10,295	12,631	12,631

	DECEMBER 31,					MARCH 30,	PRO FORMA(2)
	1991	1992	1993	1994	1995	1996	
	(IN THOUSANDS, EXCEPT PER SHARE DATA)						
BALANCE SHEET DATA:							
Cash, cash equivalents and short-term investments.....	\$ 159	\$ 6,114	\$19,877	\$13,347	\$20,422	\$16,690	\$ 6,194
Working capital.....	6,711	16,021	21,792	23,229	21,327	19,851	6,787
Total assets.....	44,427	45,624	44,233	42,749	51,937	58,604	57,246
Long-term liabilities.....	1,875	1,375	--	--	--	730	730
Redeemable Series 1 Preferred Stock.....	6,100	6,100	6,100	6,100	--	--	--
Total shareholders' equity.....	14,961	20,051	21,588	22,987	27,320	29,218	23,383
Cash dividends declared per common share.....	--	--	--	--	0.495	--	--

(1) Includes certain insignificant expenses of the Company commencing upon the formation of the Company in October 1990. Operations represent the acquired Varian businesses from February 15, 1991.

(2) The pro forma condensed combined statement of operations presents the combined results of Intevac, SJT and Lotus and assumes the SJT acquisition took place on January 1, 1996 and the Lotus acquisition took place on February 1, 1996. The pro forma condensed combined statement of operations combines the historical statement of operations information for Intevac for the three months ended March 30, 1996 with the historical statement of operations for SJT for the three months ended March 31, 1996 and the historical statement of operations for Lotus for the three months ended April 30, 1996. The pro forma condensed combined balance sheet assumes the acquisition occurred as of March 31, 1996 for SJT and April 30, 1996 for Lotus and combines the Intevac's March 30, 1996 balance sheet, SJT's March 31, 1996 balance sheet and Lotus' April 30, 1996 balance sheet.

The pro forma statement of operations data assume the acquisitions of SJT and Lotus took place on January 1, 1996 and February 1, 1996, respectively. Such unaudited pro forma information is based on the historical three month statement of operations for Intevac, SJT and Lotus and give effect for the pro forma adjustments, which included amortization of intangibles of \$0.5 million, reduced interest income of \$0.2 million and an income tax benefit of \$0.3 million for the period. Historical net revenues and net income of Lotus and SJT, before pro forma adjustments were \$2.5 million and \$0.5 million for the period, respectively. The \$5.8 million charge relating to these acquisitions of in-process technology is excluded from the pro forma statement of operations as it represents a nonrecurring item directly related to the transaction.

(3) In the fourth quarter of 1993, the Company sold its MBE operations and acquired 20% of the outstanding capital stock of Chorus, a manufacturer of MBE products. The Company retained rights to sell certain other residual used systems of the MBE business that were not exchanged with Chorus. The sale of these used systems was completed during the first quarter of 1995.

(4) See Note 2 of Notes to Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this Prospectus.

OVERVIEW

Intevac is a leading supplier of static sputtering systems used to manufacture thin film disks for computer hard disk drives. Sputtering is a complex vacuum deposition process used to deposit multiple thin-film layers on a disk. The Company has three primary sources of net revenue: sales of disk sputtering systems and related disk manufacturing equipment; sales of system components; and contract research and development activities. The Company's disk sputtering systems, which generally represent the majority of the Company's revenue, are sold to vertically integrated disk drive manufacturers and to original equipment manufacturers that sell disk media to disk drive manufacturers. Intevac's system component business consists primarily of sales of spare parts and after-sale service to purchasers of the Company's disk sputtering systems, as well as sales of components to other manufacturers of vacuum equipment. Contract research and development revenues have been primarily derived from contracts with ARPA for development projects for the flat panel display industry. Revenues from the sale of FPD products have not been material.

Until the first quarter of 1995, the Company also received revenues from sales of molecular beam epitaxy ("MBE") systems. MBE systems are used for the design and manufacture of materials having the characteristics of a semiconductor that are used to produce transistors, opto-electronic devices and integrated circuits. The Company acquired the MBE business from Varian in 1991 and sold the business to a third party in October 1993. MBE revenues in 1994 and the first quarter of 1995 were derived from sales of used MBE equipment that had not been sold in the acquisition and from other activities in connection with the winding down of the MBE business. The Company does not expect any MBE revenues in future periods.

Income (loss) from discontinued operations represents results from the Company's sales of night vision products, primarily sales of night vision goggles and devices. In May 1995, the Company completed the sale of its night vision business to Litton Systems, Inc. for cash. The Company retained certain engineering personnel from the night vision business as well as some government contracts for research and development work in photocathodes, various applications of that technology and development of processes for making thin-film transistors with sputtered materials.

Historically, a significant portion of the Company's revenues in any particular period have been attributable to sales to a limited number of customers. The Company's largest customers change from period to period as large thin-film disk fabrication facilities are completed and new projects are initiated. The Company expects that sales of its products to relatively few customers will continue to account for a high percentage of its net revenues in the foreseeable future. For example, a majority of the Company's backlog as of March 31, 1996 represents orders from Seagate for a new facility Seagate is constructing in Singapore. In the event Seagate experiences a significant delay in the construction of the new facility, or to the extent Seagate defers the completion of its construction, the Company's net revenues and operating results could be materially adversely affected. In addition, Seagate recently acquired Conner. Conner has significant disk media manufacturing operations, uses an internally developed in-line disk sputtering system, and has never purchased a system from the Company. There can be no assurance that the combined entity will not favor Conner's internally developed disk sputtering system over the Company's system, or delay, reduce or cease purchases of the Company's products for other reasons, or that this acquisition will not otherwise have a material adverse effect on the Company's business, financial condition and results of operations. None of the Company's customers has entered into a long-term agreement requiring it to purchase the Company's products. As

purchases related to a particular new or expanded fabrication facility are completed, sales to that customer may decrease sharply or cease altogether. If completed contracts are not replaced on a timely basis by new orders from the same or other customers, the Company's net revenues could be adversely affected. The loss of a significant customer, any reduction in orders from any significant customer or the cancellation of a significant order from a customer, including reductions or cancellations due to customer departures from recent buying patterns, financial difficulties of a customer or market, economic or competitive conditions in the disk drive industry could materially adversely affect the Company's business, financial condition and results of operations.

The Company's business depends upon capital expenditures by manufacturers of thin-film disks, of which there are a limited number worldwide. According to TrendFOCUS, an independent market research firm, as of the end of 1995, there were 187 installed disk sputtering lines worldwide and only 14 companies in the world with five or more installed disk sputtering lines. Therefore, winning or losing an order from any particular customer can significantly affect the Company's operating results. In addition, the Company's opportunities to sell its systems are further limited by the fact that many of the manufacturers of thin-film disks have adopted an in-line approach as opposed to the Company's static approach to thin-film disk manufacturing. These manufacturers have invested significant amounts of capital in their in-line systems, and as such there may be significant resistance to change to a static approach in the future. See "Risk Factors -- Limited Number of Opportunities."

The disk drive industry is cyclical and historically has experienced periods of oversupply. Within the past year, most media manufacturers have announced programs for capacity expansion. In addition, Hyundai has announced plans to commence media manufacturing. This industry-wide increase in capacity may lead to a period of oversupply of thin-film disks resulting in significantly reduced demand for thin-film disk production and for the capital equipment used in such production, including the systems manufactured and marketed by the Company. In recent years, particularly in very recent periods the disk drive industry has experienced significant growth, which, in turn, has caused significant growth in the capital equipment industry supplying manufacturers of thin-film disks. There can be no assurance that such growth will continue. The Company anticipates that a significant portion of new orders will depend upon demand from thin-film disk manufacturers building or expanding fabrication facilities, and there can be no assurance that such demand will exist. The Company's business, financial condition and results of operations could be materially adversely affected by downturns or slowdowns in the disk drive market. See "Risk Factors -- Cyclicity of the Media Manufacturing Industry."

The Company's business strategy includes acquiring technologies or businesses that enable it to expand its current product offerings in the thin-film disk manufacturing market. The Company has completed three acquisitions during 1996 and expects that it may pursue additional acquisitions in the future. In January 1996, the Company acquired Cathode Technology Corporation, a developer of advanced sputter source technology for the production of disks used in computer hard disk drives, for approximately \$1.1 million in cash and \$2.0 million in notes. In May 1996, the Company acquired San Jose Technology Corp., a manufacturer of systems used to lubricate thin-film disks, for approximately, \$3.7 million in cash. In June 1996, the Company acquired Lotus Technologies, Inc., a manufacturer of contact stop/start test equipment for hard disk drives and drive components, for approximately \$8.3 million in cash.

Any future acquisitions may result in potentially dilutive issuances of equity securities, the incurrence of debt, cash payment and contingent liabilities and amortization expense related to intangible assets acquired, any of which could materially adversely affect the Company's business, financial condition and results of operations. In particular, the Company will not be able to use the "pooling of interests" method of accounting in connection with any acquisition consummated prior to November 21, 1997, and the Company will therefore be required to amortize any intangible assets acquired in connection with any acquisition consummated during that period.

The Company expects to incur a charge to operations currently estimated to be approximately \$5.8 million in the quarter ended June 29, 1996, to reflect the purchase of in-process research and development pursuant to the two acquisitions subsequent to March 30, 1996. In addition, the Company intends to amortize approximately \$10.1 million of costs relating to the SJT and Lotus acquisitions subsequent to March 30, 1996. In addition, in connection with the SJT, Lotus and Cathode acquisitions in 1996, the Company anticipates capitalizing intangibles of approximately \$10.1 million consisting of current technology, goodwill and non-compete covenants. A full quarter's amortization is expected to be approximately \$644,000. Such amounts are preliminary estimates and therefore subject to change. Additional, unanticipated expenses may be incurred relating to the integration of technologies and research and development and administrative functions. Any acquisition will involve numerous risks, including difficulties in the assimilation of the acquired company's employees, operations and products, uncertainties associated with operating in new markets and working with new customers, the potential loss of the acquired company's key employees as well as the costs associated with completing the acquisitions and integrating the acquired company. See "Risk Factors -- Acquisitions."

RESULTS OF OPERATIONS

The following table sets forth certain consolidated statement of operations data as a percentage of total net revenues and certain gross margin data for the periods indicated:

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED		PRO FORMA COMBINED THREE MONTHS
	1993	1994	1995	APRIL 1, 1995	MARCH 30, 1996	
Net revenues:						
Disk, flat panel and other.....	71.6%	89.3%	98.4%	87.1%	100.0%	100.0%
MBE.....	28.4	10.7	1.6	12.9	--	--
Total net revenues.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of net revenues:						
Disk, flat panel and other.....	43.5	57.7	63.6	60.4	60.8	62.7
MBE.....	24.2	4.2	1.0	8.1	--	--
Total cost of net revenues.....	67.7	61.9	64.6	68.5	60.8	62.7
Gross profit.....	32.3	38.1	35.4	31.5	39.2	37.3
Operating expenses:						
Research and development.....	14.0	17.2	6.1	6.3	9.1	8.9
Selling, general and administrative.....	17.4	11.0	10.6	16.3	12.5	11.9
Total operating expenses.....	31.4	28.2	16.7	22.6	21.6	20.8
Operating income.....	0.9	9.9	18.7	8.9	17.6	16.5
Other income (expense), net.....	(0.9)	2.3	2.1	4.4	1.7	0.7
Income from continuing operations before income taxes.....	--	12.2	20.8	13.3	19.3	17.2
Provision for (benefit from) income taxes.....	(0.3)	4.0	7.4	4.6	6.8	6.0
Income from continuing operations.....	0.3	8.2	13.4	8.7	12.5	11.2
Income (loss) from discontinued operations.....	6.5	(1.3)	3.1	24.9	--	--
Net income.....	6.8%	6.9%	16.5%	33.6%	12.5%	11.2%
Gross margin:						
Disk, flat panel and other.....	39.2%	35.4%	35.3%	30.6%	39.2%	37.3%
MBE.....	15.0%	60.7%	37.6%	37.6%	--	--

THREE MONTHS ENDED APRIL 1, 1995 AND MARCH 30, 1996

Net revenues. Disk, flat panel and other net revenues consist primarily of sales of the Company's disk sputtering systems and related disk manufacturing equipment and flat panel equipment and, to a lesser extent, system components and contract research and development. Net revenues from the sales of systems are recognized upon customer acceptance. System component sales are recognized upon product shipment, and contract research and development is recognized in accordance with contract terms, typically as costs are incurred. MBE net revenues consist primarily of sales of used MBE equipment not included in the sale of the MBE business. Net revenues increased to \$15.1 million for the three months ended March 30, 1996 from \$5.4 million the three months ended April 1, 1995. The increase in net revenues was primarily due to an increase in the sales of disk sputtering systems.

There were no net revenues from the sale of MBE systems for the three months ended March 30, 1996 as compared to net revenues of \$0.7 million for the three months ended April 1, 1995. The Company wound down the MBE business following the exchange of substantially all of the assets related to this business with a third party for stock in late 1993.

International sales increased to \$6.7 million for the three months ended March 30, 1996 from \$0.8 million for the three months ended April 1, 1995. The increase in revenues from international sales was primarily due to an increase in the sales of disk sputtering systems. International sales constituted 45% of net revenues for the three months ended March 30, 1996 and 14% of net revenues for the three months ended April 1, 1995.

Gross profit. Cost of net revenues consist primarily of purchased materials, fabrication, assembly, test, installation, international distributor costs, warranty costs and, to a lesser extent, costs attributable to contract research and development. Gross margin from disk, flat panel and other sales was 39.2% for the three months ended March 30, 1996 as compared to 30.6% for the three months ended April 1, 1995. The higher gross margins were primarily due to increased manufacturing efficiencies resulting from higher production volume and to a lesser extent to favorable product mix. Margins fluctuate with the configuration of systems sold in any given period and the system configurations for the three months ended March 30, 1996 were higher margin configurations. The Company believes that gross margins experienced in the first quarter of 1996 were higher than should generally be expected and are not indicative of gross margins in future periods.

Research and development. Research and development expense consists primarily of prototype materials, salaries and related costs of employees engaged in ongoing research, design and development activities for disk sputtering equipment and FPD manufacturing equipment. Company funded research and development expense increased to \$1.4 million for the three months ended March 30, 1996 from \$0.3 million for the three months ended April 1, 1995, representing 9.1% and 6.3%, respectively, of net revenue. The increase in research and development expense was primarily the result of increased expense for the development of disk sputtering products and FPD manufacturing machines.

Research and development expenses do not include costs of \$0.4 million in each of the three months ended March 30, 1996 and April 1, 1995, reimbursed under the terms of a research and development cost sharing agreement with the Company's Japanese flat panel manufacturing equipment ("D-Star") development partner. On February 14, 1996, this research and development cost sharing agreement was amended to increase the development partner's total funding commitment from \$4.3 million to \$5.5 million. Under the terms of the research and development cost sharing agreement, Intevac and its development partner each pay half of all D-Star development costs. At March 30, 1996, \$0.9 million of the \$5.5 million development funding committed by the Company's development partner remained to be spent on the D-Star development project. In addition, research and development expenses do not include expenditures in connection with contract research and development activities since these are charged to cost of sales.

The Company also expects that it will take a charge of \$5.8 million in the quarter ended June 30, 1996 relating to the purchase of in-process research and development of Lotus and SJT. The purchase price was allocated to tangible and intangible assets of Lotus and SJT based on the fair values of those assets using a risk adjusted discounted cash flow approach. The valuation of in-process research and development considered, among other factors, the stage of development of each project, the time and resources needed to complete each project, expected income and associated risks. The in-process research and development did not have alternative future uses.

Selling, general and administrative. Selling, general and administrative expense consists primarily of selling, marketing, financial, travel, management, legal and professional services. Domestic sales are made by the Company's direct sales force whereas international sales are made by distributors that typically provide sales, installation, warranty and ongoing customer support. International distributor costs are included in cost of net revenues. Selling, general and administrative expense increased to \$1.9 million for the three months ended March 30, 1996 from \$0.9 million for the three months ended April 1, 1995 representing 12.5% and 16.2%, respectively, of net revenue. The increase in selling, general and administrative expense was primarily the result of increased expense associated with the marketing and customer service and support of disk sputtering systems, the on-site customer evaluation of a system and increased public company costs subsequent to the Company's initial public offering in November 1995. Administrative headcount grew to 55 employees at March 30, 1996 from 34 employees at April 1, 1995.

Other income, net. Other income, net consists primarily of interest income on the Company's short-term investments, and to a lesser extent, early payment discounts on the purchase of inventories, goods and services. Other income, net increased by 11% to \$0.3 million for the three months ended March 30, 1996 from \$0.2 million for the three months ended April 1, 1995, as the result of increased interest income from higher cash balances, offset partially by the Company shifting a portion of its cash and short-term investments into tax exempt short-term investments with lower pretax yields.

Discontinued operations. In March 1995, the Company adopted a formal plan to discontinue its night vision business. The Company sold its night vision business to Litton Systems, Inc. in May of 1995. Accordingly, the results of operations data for the three months ended April 1, 1995 reflect the night vision business as a discontinued operation. Net revenues included in discontinued operations for the three months ended April 1, 1995 were \$4.2 million. Included in income from discontinued operations of the three months ended April 1, 1995 is a net gain after taxes of approximately \$1.3 million, net of a reserve of approximately \$2.6 million to provide for estimated closing, environmental remediation and warranty costs from the sale of the night vision business.

Provision for income taxes. Income tax expense as a percentage of pretax income for the three months ended March 30, 1996 and April 1, 1995, was 35% and 36%, respectively. The Company's tax rate for these periods differs from the applicable statutory rates primarily due to tax exempt interest income and state income taxes.

YEARS ENDED DECEMBER 31, 1993, 1994 AND 1995

Net revenues. Net revenues totaled \$42.9 million, \$20.5 million and \$22.4 million in 1995, 1994 and 1993, respectively. Net revenues increased from 1994 to 1995 primarily due to a \$23.9 million increase in net revenues from sales of disk sputtering systems and other components partially offset by a \$1.5 million decline in MBE sales. Net revenues decreased from 1993 to 1994 due to a \$4.2 million decline in MBE sales, partially offset by a \$2.1 million increase in net revenue from sales of disk sputtering systems and other components. Seagate, HMT Technology and Matsubo accounted for 40%, 20% and 17%, respectively, of the Company's total net revenues during 1995. Trace, Matsubo, Seagate, Varian Associates and Komag accounted for 25%, 15%, 13%, 12% and 10%, respectively, of the Company's total net revenues during 1994 and Western Digital, Matsubo and Trace accounted for 21%, 14% and 11%, respectively, of the Company's total net revenues during 1993.

MBE accounted for \$0.7 million, \$2.2 million and \$6.4 million of net revenues in 1995, 1994 and 1993, respectively. The Company sold substantially all of the assets related to its MBE operation in October 1993 in exchange for 20% of the outstanding stock of Chorus. This investment is accounted for under the equity method. The Company continued to dispose of residual assets of the MBE business through the first quarter of 1995. In the third quarter of 1995, the Company sold its investment interest in Chorus.

International sales totaled \$8.7 million, \$8.2 million and \$7.2 million in 1995, 1994 and 1993, respectively. International sales accounted for 20%, 40% and 32% of net revenues in 1995, 1994 and 1993, respectively. Substantially all of the Company's sales were denominated in United States dollars.

Gross profit. Gross margin for disk, flat panel and other was 35.3%, 35.4% and 39.2% in 1995, 1994 and 1993, respectively. Gross margin declined in 1994 as the result of a larger portion of total net revenues in 1994 being represented by lower margin component sales and contract research and development. Gross margin for MBE was 37.6%, 60.7% and 15% in 1995, 1994 and 1993, respectively. MBE gross margin increased to 60.7% in 1994 and 37.6% in 1995 due to the resale at high margins of used MBE machines that the Company retained after the sale of the MBE business.

Research and development. Company funded research and development expense decreased from \$3.5 million in 1994 to \$2.6 million in 1995. The \$0.9 million decrease was caused by a \$1.1 million decrease in expenses related to the development of a FPD machine and a \$0.2 million decrease in MBE research and development expenses, which were partially offset by a \$0.4 million increase in research and development spending on disk sputtering equipment. Research and development expense increased by 12% to \$3.5 million in 1994 from \$3.1 million in 1993. The increase was primarily the result of a \$0.9 million increase in expenses related to development of a FPD machine and was partially offset by a \$0.6 million decrease in MBE research and development expenses.

Research and development expenses do not include costs of \$1.1 million, \$2.0 million and \$0.9 million that were incurred by the Company in 1995, 1994 and 1993, respectively, reimbursed under the terms of a research and development cost sharing agreement with the Company's Japanese development partner. In addition, research and development expenses do not include expenditures in connection with contract sponsored research and development activities since these are charged to cost of sales.

Selling, general and administrative. Selling, general and administrative expense totaled \$4.6 million, \$2.2 million and \$3.9 million in 1995, 1994 and 1993, respectively, representing 10.6%, 11.0% and 17.4% of revenue. The \$2.4 million increase in selling, general and administrative expenses from 1994 to 1995 was primarily the result of increased expenses associated with marketing disk sputtering systems and, to a lesser extent, the increased costs of administering and insuring a public company as a result of the Company's November 21, 1995 initial public offering. These costs were driven by an increase in administrative head-count to support the Company's increased level of business and administrative activities. The reduction in selling, general and administrative expense to \$2.2 million in 1994 from \$3.9 million in 1993 was the result of a significant decrease (\$2.0 million) in expenses related to the MBE business which was sold in October 1993, partially offset by increases in expenses related to the disk sputtering business.

Other income (expense), net. Other income (expense), net totaled \$0.9 million, \$0.5 million and \$(0.2) million, in 1995, 1994 and 1993, respectively. Other income during 1994 and 1995 resulted primarily from interest income. Other expense during 1993 resulted primarily from a \$0.8 million charge related to the sale of the MBE business, partially offset by interest income.

Discontinued operations. In March 1995, the Company adopted a formal plan to discontinue the night vision business. The Company sold its night vision business to Litton Systems, Inc. in May 1995. Accordingly, the results of operations data for the years ended December 31, 1995, 1994 and 1993 reflects the night vision business as a discontinued operation. Net revenues included in discontinued

operations for the years ended December 31, 1995, 1994 and 1993 were \$4.2 million, \$18.4 million and \$37.5 million, respectively.

Provision for (benefit from) income taxes. Income tax expense as a percentage of pretax income was 36% and 33% in 1995 and 1994, respectively. The Company's tax rate differs from the applicable statutory rates primarily due to the utilization of research and development tax credits, tax exempt interest income and state income taxes. In 1993, the Company recorded a tax benefit of \$75,000 on a pretax loss of \$9,000 primarily due to the utilization of research and development tax credits.

A net deferred tax asset of \$3.2 million is reflected in the financial statements at December 31, 1995. Based on the Company's historical taxable income and projected future earnings, management believes that it is more likely than not that the Company will realize the benefit of this assets. The valuation allowance of \$0.5 million relates to certain future state income tax deductions.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth certain unaudited quarterly financial information for the nine quarters in the period ended March 30, 1996 as well as such data expressed as a percentage of the Company's total net revenues and certain gross margin data for the periods indicated. In the opinion of management the data has been prepared on a basis consistent with the Company's audited consolidated financial statements included elsewhere in the Prospectus and includes all necessary adjustments, consisting only of normal recurring accruals that management considers necessary for a fair presentation. The Company believes that the results of operations for the interim periods are not necessarily indicative of the results to be expected for any future period.

	THREE MONTHS ENDED								
	APRIL 2, 1994	JULY 2, 1994	OCT. 1, 1994	DEC. 31, 1994	APRIL 1, 1995	JULY 1, 1995	SEPT. 30, 1995	DEC. 31, 1995	MARCH 30, 1996
	(IN THOUSANDS)								
STATEMENT OF OPERATIONS									
DATA:									
Net revenues:									
Disk, flat panel and other.....	\$3,138	\$1,337	\$ 9,641	\$4,150	\$4,674	\$11,105	\$12,071	\$14,337	\$15,126
MBE systems.....	495	745	431	514	695	--	--	--	--
Total net revenues.....	3,633	2,082	10,072	4,664	5,369	11,105	12,071	14,337	15,126
Cost of net revenues:									
Disk, flat panel and other.....	2,080	1,150	5,716	2,853	3,244	7,116	7,702	9,218	9,203
MBE systems.....	114	362	250	132	434	--	--	--	--
Total cost of net revenues.....	2,194	1,512	5,966	2,985	3,678	7,116	7,702	9,218	9,203
Gross profit.....	1,439	570	4,106	1,679	1,691	3,989	4,369	5,119	5,923
Operating expenses:									
Research and development.....	1,113	757	679	966	340	580	746	937	1,379
Selling, general and administrative.....	515	484	671	578	871	1,130	1,106	1,443	1,887
Total operating expenses.....	1,628	1,241	1,350	1,544	1,211	1,710	1,852	2,380	3,266
Operating income (loss).....	(189)	(671)	2,756	135	480	2,279	2,517	2,739	2,657
Other income, net.....	133	138	111	88	234	274	186	235	261
Income (loss) from continuing operations before income taxes....	(56)	(533)	2,867	223	714	2,553	2,703	2,974	2,918
Provision for (benefit from) income taxes.....	(18)	(175)	945	74	247	916	973	1,043	1,021
Income (loss) from continuing operations.....	(38)	(358)	1,922	149	467	1,637	1,730	1,931	1,897
Income (loss) from discontinued operations.....	110	(485)	(176)	284	1,335	--	--	--	--
Net income (loss).....	\$ 72	\$ (843)	\$ 1,746	\$ 433	\$1,802	\$ 1,637	\$ 1,730	\$ 1,931	\$ 1,897

THREE MONTHS ENDED

	APRIL 2, 1994	JULY 2, 1994	OCT. 1, 1994	DEC. 31, 1994	APRIL 1, 1995	JULY 1, 1995	SEPT. 30, 1995	DEC. 31, 1995	MARCH 30, 1996
PERCENTAGE OF TOTAL NET REVENUES:									
Net revenues:									
Disk, flat panel and other.....	86.4%	64.2%	95.7%	89.0%	87.1%	100.0%	100.0%	100.0%	100.0%
MBE.....	13.6	35.8	4.3	11.0	12.9	--	--	--	--
Total net revenues.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of net revenues:									
Disk, flat panel and other.....	57.3	55.2	56.7	61.2	60.4	64.1	63.8	64.3	60.8
MBE.....	3.1	17.4	2.5	2.8	8.1	--	--	--	--
Total cost of net revenues.....	60.4	72.6	59.2	64.0	68.5	64.1	63.8	64.3	60.8
Gross profit.....	39.6	27.4	40.8	36.0	31.5	35.9	36.2	35.7	39.2
Operating expenses:									
Research and development.....	30.6	36.4	6.7	20.7	6.3	5.2	6.2	6.5	9.1
Selling, general and administrative.....	14.2	23.2	6.7	12.4	16.3	10.2	9.1	10.1	12.5
Total operating expenses...	44.8	59.6	13.4	33.1	22.6	15.4	15.3	16.6	21.6
Operating income (loss)....	(5.2)	(32.2)	27.4	2.9	8.9	20.5	20.9	19.1	17.6
Other income (expense), net.....	3.7	6.6	1.1	1.9	4.4	2.5	1.5	1.6	1.7
Income (loss) from continuing operations before income taxes.....	(1.5)	(25.6)	28.5	4.8	13.3	23.0	22.4	20.7	19.3
Provision for (benefit from) income taxes.....	(0.5)	(8.4)	9.4	1.6	4.6	8.3	8.1	7.3	6.8
Income (loss) from continuing operations....	(1.0)	(17.2)	19.1	3.2	8.7	14.7	14.3	13.4	12.5
Income (loss) from discontinued operations.....	3.0	(23.3)	(1.8)	6.1	24.9	--	--	--	--
Net income (loss).....	2.0%	(40.5)%	17.3%	9.3%	33.6%	14.7%	14.3%	13.4%	12.5%
Gross profit:									
Disk, flat panel and other.....	33.7%	14.0%	40.7%	31.3%	30.6%	35.9%	36.2%	35.7%	39.2%
MBE.....	77.0%	51.4%	42.0%	74.3%	37.6%	--	--	--	--

Net revenue. The Company's quarterly operating results depend upon the volume and timing of net revenues from system sales from quarter to quarter. Disk, flat panel and other net revenues fluctuated from the first quarter of 1994 through the first quarter of 1996 primarily as the result of the number of disk sputtering systems shipped and accepted in each particular quarter. From the first quarter of 1994 through to the first quarter of 1996, the number of disk sputtering systems accepted by customers per quarter ranged from zero to four systems. Disk sputtering systems sold during the periods ranged depending primarily on configuration between \$2.0 million to \$3.5 million per system and the number and configuration of units sold and accepted by customers in any quarter had a major effect on the Company's net revenues and operating profit for that particular period.

Gross profit. Gross profit and gross margin for disk, flat panel and other fluctuated from the first quarter of 1994 through the first quarter of 1996 primarily as the result of the number and configuration of disk sputtering systems sold in any particular quarter. In periods when net revenue from sales of disk sputtering systems was low, gross margin decreased as a result of lower margin component sales and net revenue from contract research and development representing a larger proportion of total net revenues. In periods when net revenue from sales of disk sputtering systems was relatively higher, gross margin increased as a result of higher margin disk sputtering system sales representing a larger proportion of total net revenue. In the first quarter of 1996, gross margin was 39.2% which was

significantly higher than the gross margin in prior quarters and higher than gross margins expected in future quarterly periods.

Research and development. Company funded research and development expenses fluctuated from the first quarter of 1994 through the first quarter of 1996 primarily as the result of varying levels of expenses related to the D-Star development project and MDP-250 product development and the timing of receipt of cost sharing credits from the Company's D-Star development partner. D-Star development expenses in 1994 included the cost of producing the initial D-Star prototype. Research and development costs during 1995 do not include significant D-Star prototype expenses. The Company expects that additional expenses for development of further D-Star prototypes are likely to be incurred in the future. There can be no assurance the Company's development partner will continue to share D-Star development costs in the future. A reduction or elimination of D-Star cost sharing with the Company's D-Star development partner could cause the Company to incur greater D-Star development expense or to curtail or eliminate further D-Star development efforts.

Selling, general and administrative. Selling, general and administrative expenses have generally increased in each quarter from the first quarter of 1994 through the first quarter of 1996 as the result of the Company adding marketing, financial, administrative and management personnel and related expenses consistent with expansion of the Company's business. The Company is expanding its customer support organization to support its installed customer base and expects expenses associated with such expansion to increase in absolute dollar amounts in future periods and fluctuate as a percent of net revenue. Selling, general and administrative expenses fluctuate as a percentage of revenue primarily due to fluctuations in revenue.

The Company's operating results have historically been subject to significant quarterly and annual fluctuations. The Company derives most of its net revenues from the sale of a small number of sputtering systems. The number of systems accepted by customers in any particular quarter has varied from zero to four and, as a result, the Company's net revenues and operating results for a particular period could be materially adversely affected if an anticipated order for even one system is not received in time to permit shipment and customer acceptance during that accounting period. The Company's backlog at the beginning of a quarter may not include all system orders needed to achieve the Company's sales objectives for that quarter. Orders in backlog are subject to cancellation, and although the Company generally requires a deposit on orders for its systems, such deposits may not be sufficient to cover the expenses incurred by the Company for the manufacture of the cancelled systems or fixed operating expenses associated with such systems to the date of cancellation. From time to time, in order to meet anticipated customer demand, the Company has manufactured disk sputtering systems in advance of the receipt of orders for such systems. The Company expects to continue this practice in the future. In the event that anticipated orders are not received as expected, then the Company could be materially adversely affected as the result of higher inventory levels and increased exposure to surplus and obsolete inventory write-offs. Orders may be subject to delay, deferral or rescheduling by a customer. From the date the Company receives an order, it often takes more than six months before the net revenues from such order are recognized and even longer before final payment is received. The relatively long manufacturing cycles of many of the Company's products has caused and could cause shipments of such products to be delayed from one quarter to the next, which could materially adversely affect the Company's business, financial condition and results of operations for a particular quarter. Announcements by the Company or its competitors of new products and technologies could cause customers to defer purchases of the Company's existing systems, which would have a material adverse effect on the Company's business, financial condition and results of operations.

Installing and integrating new sputtering systems into the thin-film disk manufacturing process requires a substantial investment by a customer. Therefore, customers often require a significant number of product presentations and demonstrations, as well as substantial interaction with the Company's senior management, before making a purchasing decision. Accordingly, the Company's systems typically have a lengthy sales cycle during which the Company may expend substantial funds and management time and effort with no assurance that a sale will result. Furthermore, the Company's

expense levels are based, in part, on its expectations as to future net revenues. If revenue levels are below expectations, operating results are likely to be adversely affected. Net income, if any, may be disproportionately affected by a reduction in net revenues because a proportionately smaller amount of the Company's expenses varies with its net revenues. The impact of these and other factors on the Company's sales and operating results in any future period cannot be forecasted with certainty. Due to all of the foregoing factors, the Company expects its quarterly operating results to fluctuate significantly and may in certain quarters be below the expectations of the public market analysts and investors. In such event it is likely the price of the Company's Common Stock would be materially adversely affected.

The Company believes that its operating results will continue to fluctuate on a quarterly and annual basis due to a variety of factors. These factors include the cyclical nature of the thin-film disk manufacturing and disk drive industries, patterns of capital spending by customers, the timing of significant orders, order cancellations and shipment reschedulings, market acceptance of the Company's products, unanticipated delays in design, engineering or production or in customer acceptance of product shipments, changes in pricing by the Company or its competitors, the timing of product announcements or introductions by the Company or its competitors, the mix of systems sold, the relative proportions of sputtering systems, system components and subassemblies, and contract research and development net revenues, the availability and cost of components and subassemblies, changes in product development costs, expenses associated with any acquisitions and exchange rate fluctuations. Over the last nine quarters the Company's operating income (loss) as a percentage of net revenues has fluctuated from approximately (32)% to 27% of net revenues. The Company anticipates that its operating margin will continue to fluctuate. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities in 1995 provided cash of \$10.5 million due to net income, increases in customer advances and accounts payable from continuing operations and a decrease in accounts receivable from continuing operations partially offset by increases in inventories related to continuing operations. The Company's operating activities used cash of \$1.3 million for the three months ended March 30, 1996. The decrease was due primarily to increased accounts receivable and increased inventories which were partially offset by increased customer advances and net income.

Investing activities in 1995 provided cash of \$9.5 million due to proceeds of \$7.5 million from the sale of the night vision business, \$4.1 million from net sales of short-term investments and \$0.9 million from the sale of the investment in Chorus, partially offset by \$3.0 million for the purchase of property and equipment. The Company's investing activities used cash of \$5.0 million for the three months ended March 30, 1996. The decrease was due primarily to the purchase of short-term investments, the purchase of fixed assets and the Company's purchase of Cathode Technology Corporation ("Cathode"). In January 1996, the Company acquired Cathode for approximately \$3.1 million of cash and notes.

Financing activities in 1995 used cash of \$8.9 million due to the cash payment on the conversion of the Preferred Stock to Common Stock of \$9.9 million, the payment of the dividend on the Common Stock of \$4.9 million and the redemption of Preferred Stock for \$6.1 million partially offset by \$12.1 million from the sale of Common Stock, net of repurchases. The Company's financing activities provided cash of \$1,000 for the three months ended March 30, 1996. The increase was due primarily to the exercise of stock options by employees.

At March 30, 1996, the Company had \$14.1 million of cash and cash equivalents. Subsequent to March 30, 1996, the Company used cash of approximately \$12 million to fund two acquisitions. In May 1996, the Company acquired SJT, for approximately \$3.7 million in cash. In June 1996, the Company acquired Lotus, for approximately \$8.3 million in cash. In addition, the Company has a \$10.0 million

revolving line of credit which expires March 13, 1997. Borrowings under the agreement are based on eligible receivables. Borrowings bear interest, at the option of the Company, at the prime rate, of the London Interbank Offering Rate (LIBOR) plus two and one-half percent per annum and are secured by substantially all the Company's assets. The line of credit agreement requires the Company to maintain certain financial ratios and other financial conditions. The Company intends to undertake approximately \$2.5 million in capital expenditures during the next 12 months. The Company believes the net proceeds from this offering and its existing cash and cash equivalent balances and credit facilities will be sufficient to meet its cash requirements for at least the next 12 months. While operating activities may provide cash in certain periods, to the extent the Company may experience growth in the future, the Company anticipates that its operating and investing activities may use cash and, consequently, such growth may require the company to obtain additional sources of financing. The Company may also from time to time consider additional acquisitions of complementary businesses, products or technologies, which may require additional financing.

BUSINESS

The following Business section contains forward-looking statements which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this Prospectus.

INTRODUCTION

Intevac, Inc. ("Intevac" or the "Company") is a leading supplier of static sputtering systems and related manufacturing equipment used to manufacture thin-film disks for computer hard disk drives. Sputtering is a complex vacuum deposition process used to deposit multiple thin-film layers on a disk. The Company's principal product, the MDP-250B, was introduced in 1994 and is the fourth generation of the Company's Magnetic Disk Processing ("MDP") system. The MDP-250B system enables disk manufacturers to achieve high coercivities, high signal-to-noise ratios, minimal disk defects, durability and uniformity, all of which are necessary in the production of high performance, high capacity disks. Additionally, the Company's static systems allow disk manufacturers to achieve low production costs through high yield, high uptime, and low acquisition, operating and facilities costs. The Company's primary objective is to be the industry leader in supplying disk sputtering equipment by providing disk sputtering systems which have both the highest overall performance and the lowest cost of ownership in the industry.

INDUSTRY BACKGROUND

The market for computer disk drives is large and growing rapidly, driven primarily by the demand for new personal computers ("PCs") and upgrades to existing PCs. Requirements for data storage capacity are also increasing with the development of more memory intensive software, including complex operating systems such as Windows 95 and programs such as multimedia computing applications, and more powerful and faster microprocessors and other computer hardware. Because hard disk drives are the principal means for storing and rapidly retrieving large amounts of digital data, the market for hard disk drives has also grown at a rapid rate. According to International Data Corporation ("IDC"), hard disk drive shipments were 50 million units in 1993, are expected to reach 115 million units in 1996 and are projected to reach over 201 million units in 1999. IDC expects the worldwide market for hard disk drives to be \$28 billion in 1996.

The disk drive industry is characterized by short product lives, frequent technological advances and intense competition. These technological advances have resulted in significant increases in disk storage capacity and lower cost per megabyte of storage. Typical disk drive storage capacity has increased more than tenfold in the last five years, from approximately 30 to 60 megabytes in 1989 to approximately 500 to 1,000 megabytes in 1995. While the amount of storage capacity has increased significantly during this period, typical disk drive form factors have decreased from 5.25 inches to 3.5 inches. Hard disk drive storage capacity can be increased by adding more disks to the disk drive or by increasing the areal density (the number of bits of data stored per unit of area) of the disks. Although the number of disks used in disk drives has begun to increase recently, it had remained approximately the same over the last five years while the areal density of the disks has increased rapidly during this period. The increase in disk drive capacity has therefore been primarily accomplished by increasing the storage capacity of the disks themselves. According to TrendFOCUS, an independent market research firm, the number of thin-film disks produced in 1993 was 134 million, is expected to be 336 million in 1996 and is projected to reach 609 million in 1999. TrendFOCUS expects the worldwide market for thin-film disks to be \$4.2 billion in 1996.

The Company's business depends upon capital expenditures by manufacturers of thin-film disks, of which there are a limited number worldwide. According to TrendFOCUS, as of the end of 1995, there were 187 installed disk sputtering lines (sputtering systems and related equipment such as plating, polishing, texturing, lubrication and test equipment as well as related handling equipment)

worldwide and only 14 companies in the world with five or more installed disk sputtering lines. The Company's opportunities to sell its systems are limited by the fact many manufacturers of thin-film disks have adopted an in-line approach as opposed to the Company's static approach to thin-film disk manufacturing.

DISK MEDIA TECHNOLOGY

The disks in a hard disk drive are substrates that have been coated with several thin-film layers and are used as a storage medium for digital data. A thin magnetic film on the disk is capable of storing information in the form of magnetic patterns written and read by the disk drive recording head. The production of thin-film disks involves several complex process steps requiring specialized and expensive manufacturing equipment and facilities. The following briefly summarizes the steps in this manufacturing process:

- Plating, polishing and texturing. The disk substrate (typically aluminum), which must be flat, smooth and free of surface defects, is plated with a non-magnetic layer for strength and durability. The substrate is then polished and textured to produce a controlled roughness on the disk's surface. This improves the friction characteristics so that the disk drive head will not stick to the disk during operation.
- Sputtering. Sputtering is a complex vacuum deposition process used to deposit multiple thin-films on the disk. The initial thin-film layers are various alloys that produce the magnetic qualities of a disk. The final thin-film layer is a protective carbon overcoat. The layers vary in thickness but are all very thin, typically less than 1/2,000th the thickness of a piece of paper. The following diagram depicts the layering of the thin films on a disk substrate:

LOGO

- Lubrication. After thin-film sputtering, a microscopic layer of lubricant is applied to the disk's surface to improve durability and reduce surface friction.

- Test and certification. In the test and certification process, each disk is electronically scanned for both film integrity and asperity control and to ensure that the disk operates to the customer's specifications.

Improvements in the disk sputtering process have contributed significantly to increases in disk storage capacity through increasing areal density (the number of bits of data stored per unit of area). The most significant advances in disk media technology have been the achievement of better magnetic characteristics and improved mechanical properties permitting lower flying heights. Flying height, the distance between the head and the disk while the disk drive is operating, depends on the smoothness and flatness of the disk surface.

CHALLENGES FACING THIN-FILM DISK MANUFACTURERS

Because of the increasing demand for reliable, rapid access storage and the intense competitiveness in the disk drive industry, disk drive manufacturers continually seek to produce higher capacity disk drives at a lower cost per megabyte of storage. Many thin-film disk manufacturers address this requirement by producing higher capacity disks capable of higher areal densities. As thin-film disk manufacturers do this, they face technical and operational challenges that fall into two principal categories: the production of high performance disks and the control of disk production costs.

Production of high performance disks.

The ability of thin-film disk manufacturers to produce disks capable of high areal density is directly related to the manufacturer's ability to consistently control disk attributes that are largely determined in the sputtering process. The disk attributes include the following:

- Coercivity. Coercivity, a measure of the magnetic strength of the disk, is expressed in Oersted ("Oe"). The magnetic strength of the disk is determined by the types of disk substrate and thin-film materials used; substrate surface conditions before disk sputtering; and the conditions that exist during the sputtering process, including temperature, vacuum and possible sources of disk contamination. Coercivity is increasingly important as areal density increases because higher coercivity permits sharper transitions between magnetized regions, essentially allowing bits of data to be closer together and therefore more data to be stored in the same disk area. Advanced drive designs today require coercivities in the range of 1800 to 2200 Oes compared to a range of 950 to 1,200 required five years ago. The Company believes coercivity requirements will continue to increase significantly over the next several years.

- Signal-to-noise ratio. The proper choice of magnetic alloy material and the uniform deposition of this material on the disk help to reduce "noise" (unwanted signals), thereby improving the signal-to-noise ratio of the data that is read from the disk. Higher signal-to-noise ratios permit higher recording density and better data rates.

- Defects. Suitability of the disks for use in disk drives with high areal density is dependent upon both the number and the size of surface imperfections on the disk. Surface imperfections result from a variety of factors, including preexisting substrate surface imperfections, minor damage, contaminants trapped in the sputtered film and non-uniform sputtering of the thin-film layers. As more data is stored in the same disk space, the number and size of disk defects that can be tolerated must be reduced.

- Smoothness and flatness. As areal density increases, a smaller magnetized region stores each bit of data. The lower the disk head flying height, the more accurately the head can read the magnetic signal. The smoother and flatter the disks, the lower the flying height that can be achieved without the head contacting the disk.

- Durability. Because the head and disk come into physical contact when the disk drive is turned off, a protective carbon overcoat is sputtered over the magnetic layer to minimize wear on the disk, to protect the information stored on the disk and to increase the useful life of the disk drive. The thickness of this overcoat must nevertheless be minimized in order to allow the head to fly as close as possible to the magnetic layer.

- Uniformity. The performance of a disk is affected by the uniformity of all of the above characteristics across the entire surface of the disk. Such uniformity is substantially affected by the quality of the disk sputtering process.

Control of disk production costs

It is important for thin-film disk manufacturers to control disk production costs in order to be competitive. Some of the most significant costs in the disk manufacturing process are influenced by the disk sputtering equipment. Disk manufacturers seek to lower their per disk manufacturing costs as part of the sputtering process by attention to:

- Yield. Overall yield significantly affects per disk manufacturing costs. The capability and performance of the sputtering equipment can significantly affect overall yield.

- Equipment acquisition and operating costs. Although acquisition costs are substantial, the cost of using the sputtering equipment, including operators, maintenance, spare parts and consumables over the life of the equipment is more significant.

- Increasing uptime and throughput. Operating cost per disk produced is directly related to the uptime and throughput realized from the equipment.

- Facilities costs. The loading and unloading portions of the sputtering machine must be in a clean room. Clean room space is very expensive to build, operate and maintain. Both the size and footprint of sputtering systems affect the amount of clean room space required to house them and the degree to which the manufacturing facility must be customized to accommodate the sputtering equipment.

- Time and cost of making process adjustments. At times during the production of disks it is necessary or desirable to add, remove or make adjustments to certain process steps. To the extent that process engineers are able to do so quickly and efficiently, the disk manufacturer is able to reduce equipment and line downtime and therefore reduce its per disk manufacturing cost.

- Flexible production scheduling. OEM customer specifications for disks and the mix of different disks produced by thin-film disk manufacturers vary. To the extent that the disk manufacturer has the flexibility to quickly and efficiently alter the product mix and volume of disks produced through its production lines, the disk manufacturer is able to rapidly respond to changing customer requirements.

THE TRADITIONAL "IN-LINE" THIN-FILM DISK SPUTTERING APPROACH

Traditionally, thin-film disk manufacturers typically used in-line systems for disk sputtering, and these systems continue to play a significant role in media manufacturing. An in-line machine involves the use of a pallet typically holding 16 or more disks. The pallet begins at one end of the machine and travels on a long conveyor through various chambers in which all of the disks in the pallet are processed while the pallet is moving. The following drawing depicts a typical in-line system:

LOGO

As the specifications and tolerances for media have become more demanding, several features typical of the in-line system architecture have created increasingly significant challenges for media manufacturers using in-line systems. These challenges include the following:

- Limited vacuum isolation. The architecture of typical in-line systems makes it very difficult to achieve optimum conditions for each process step because of imperfect vacuum isolation as disks move from one process step to the next.
- Contamination from the pallet. In an in-line system, disk substrates are processed while on the pallet. As the pallet goes through the machine repeatedly the pallet collects sputtered material (condensate). When the pallet is exposed to the atmosphere, the condensate absorbs gas which is partially released on the next cycle through the machine. This background gas degrades the properties of the magnetic film. In addition, condensate can flake off the pallet and contaminate disk surfaces, reducing yields.

- Spatial variations. The large size of the pallets and the movement of the pallets during sputtering both result in spatial variations in process conditions and disk temperatures. Even small temperature variations can cause a variation in magnetic properties, which may result in a lack of uniformity on a given disk or from disk to disk.

- Size of the machines. In-line machines are large (often more than 30 feet long), and the time required for the machine to reach stable operating conditions is longer than for smaller machines. In addition, the large size and linear configuration of in-line systems make it difficult to add process steps after installation.

Those thin-film disk manufacturers that have adopted an in-line approach have typically made significant investments in manufacturing equipment and processes. Therefore, some have chosen to overcome the challenges outlined above by making extensive modifications to their equipment in order to extend its useful life. These challenges are increasingly difficult to overcome. For example, reduced bit sizes associated with increased coercivities and reduced flying heights substantially narrow the range of permissible defect levels and signal-to-noise ratios, which can require manufacturers using in-line systems to make substantial modifications to their manufacturing systems. In addition, as disk production evolves to require additional process steps, manufacturers using in-line systems may be required to add additional chambers and processes to their systems, which may be cumbersome, difficult and expensive. The technical challenges facing manufacturers using in-line systems may become even more difficult to address to the extent that new technological developments, such as magneto-resistive heads and alternative substrates such as glass and ceramics, emerge and gain market acceptance. While a number of disk media manufacturers are expected to continue to employ in-line systems, others have chosen to implement alternative approaches to disk media manufacturing.

INTEVAC'S STATIC MANUFACTURING APPROACH

In 1982, Varian formed a business unit to design a disk sputtering system to address the inherent limitations of the in-line sputtering architecture. That business, acquired by Intevac in 1991, developed a single disk, multiple chamber static sputtering system, similar in concept to the single wafer processing machines used by the semiconductor industry. The Company's static systems differ from in-line systems in that static sputtering provides for deposition with no relative movement between the sputtering source and the disk being coated. Each disk is placed sequentially in fully isolated chambers in which various process steps are performed. The initial, first-generation static system, introduced in 1985, produced high performance disks but had low throughput compared with in-line systems. The Company's current, fourth-generation static system has a throughput of approximately 450 disks per hour, more than three times the throughput of the first-generation system. The Company believes this system is competitive with in-line systems on a cost per disk basis. The capability for making high performance disks has also been improved. For example, the current system has twelve process chambers compared to six chambers for the initial model. These improvements have led to a number of thin-film disk manufacturers adopting the static sputtering approach much as semiconductor manufacturers have moved away from batch processing systems to single wafer multiple chamber processing systems. The following drawing depicts the Company's MDP-250B static sputtering system:

LOGO

The Company's static sputtering system enables manufacturers to achieve high coercivities, high signal-to-noise ratios, minimal defects, high durability and high uniformity, all of which are necessary in the production of high performance, high areal density disks. Additionally, Intevac's static system allows the disk manufacturer to achieve low production costs through high yield, low equipment acquisition and operating costs, high uptime and low facilities costs.

The key features and benefits of the Intevac static sputtering approach are:

- Isolated process chambers. The Company's sputtering systems have isolated vacuum process chambers which can be separately controlled and optimized for each process step, enabling manufacturers to more efficiently achieve high levels of coercivity.
- Single disk processing. Each disk substrate is individually processed under the same process parameters in the Company's system. Disk to disk repeatability is high in the Company's sputtering systems because every disk is subjected to nearly identical static process conditions, and the thin-film coating is uniform due to the cylindrical shape and other design features of the sputter sources.
- Reduced contamination. In an Intevac system there is no pallet that is exposed to the atmosphere and then introduced into the process chambers; thus no absorbed gas on a pallet from outside the vacuum system can contaminate the sputtering process. The short time intervals between process steps further minimizes contamination of the disk surface and makes it possible for the Company's disk sputtering systems to produce thin-film disks with high coercivity.
- Precise temperature control. Intevac's sputtering systems afford precise temperature control and rapid changes in substrate temperature. This permits optimization of the conditions for deposition of the magnetic film in order to achieve high coercivity, while creating different process conditions for the top coat deposition in order to maximize durability.
- Rapid process development. The Company's systems permit rapid and precise change in process parameters. Stability of process conditions is achieved quickly, which significantly shortens process development time and new product qualification as well as disk production ramp up.
- Cost-effective, high throughput. The Company's systems have short transport time intervals and high sputtering rates, which enable high disk production throughput. Intevac has designed its sputter sources for high target utilization; this feature, together with the ability to use either platinum or non-platinum alloy targets to produce high coercivity disks, significantly reduces operating costs.
- Flexible manufacturing. The Company's multi-chamber, static systems fit well into relatively small scale production lines that can be installed, modified or expanded relatively quickly and comparatively inexpensively. This allows the disk manufacturer to incrementally change production levels and mix, to rapidly adapt manufacturing equipment to new product technology and to achieve fast production ramp up. The Company's static manufacturing systems thus allow the thin-film disk manufacturer to meet its customers' increasingly rapid time-to-market demands.
- Reduced facilities costs. The Company's system occupies approximately 370 square feet of factory floor space, including less than 30 square feet of clean room space. A critical cost factor for disk manufacturers is clean room facility costs, which can cost several hundred dollars per square foot for initial construction and are very expensive to operate. The size of the Company's systems therefore reduces the cost of building and operating the manufacturing facilities.

The Company has continuously introduced static sputtering systems that give manufacturers more control of the disk manufacturing process thereby allowing manufacturers to produce high performance high density disks. The advanced technology incorporated in the static system design has allowed

Intevac to meet the rapidly changing needs of the disk drive industry. For instance, the design of the Intevac system allows the manufacture of disks that can be used with psuedo-contact recording and magneto-resistive disk drive heads as well as the sputtering of thin-films onto alternative substrates.

STRATEGY

The Company's primary objective is to be the industry leader in supplying disk sputtering equipment by providing disk sputtering systems which have both the highest overall performance and the lowest cost of ownership in the industry. Key elements of the Company's strategy include the following:

Maintain Industry Leadership. The Company is a leading supplier of static sputtering systems for thin-film disk manufacturing. Intevac intends to maintain this leadership position while continuing to advance the role of static sputtering in the thin-film disk manufacturing industry.

Advance Technology Leadership. The Company believes it is currently a technology leader in the design and manufacture of static sputtering systems for thin-film disks. The Company intends to leverage the static architecture of its products to enhance the functionality of its static sputtering systems through development of advanced process techniques, higher system performance and greater throughput, while lowering the overall cost of the sputtering process to disk manufacturers.

Provide the Lowest Overall Cost of Ownership. The Company has focused and will continue to focus on providing to its customers sputtering systems and related disk manufacturing equipment with the lowest overall cost of ownership in the industry. The Company intends to achieve this goal by continuously seeking to improve system performance, throughput, uptime and product yield and by reducing costs related to operating and maintaining its systems.

Leverage Strategic Customer Relationships. The Company's customers include many of the world's leading manufacturers of thin-film disks. The Company works and intends to continue to work closely with these customers to meet their current manufacturing needs, to develop future generations of disk sputtering systems and to improve fabrication processes and manufacturing costs while meeting performance expectations.

Achieve High Level of Customer Service. The Company will continue to place a strong emphasis on quickly responding to customer needs and supporting each customer from the initial contact through the delivery, installation, ramp up and operation of the Company's equipment. The Company seeks to provide the industry's highest level of service to its customers.

Minimize Manufacturing Cost. The Company's manufacturing strategy is to produce high quality, cost-effective systems and low cost replacement parts and to be able to respond effectively to changes in volume. To do this, the Company currently designs its products to use standard parts where possible. The Company performs manufacturing activities that add value or that require unique technology or specialized knowledge and, taking advantage of its Silicon Valley location, utilizes subcontractors to perform other manufacturing activities.

Expand Product Offerings. The Company believes that significant opportunities exist in the thin-film disk manufacturing industry. It intends to acquire technologies or businesses that enable it to expand its current product offerings to thin-film disk manufacturers. In this regard, the Company made three acquisitions in the first six months of 1996. The Company acquired certain advanced sputter source technology and products; a company that sells lubrication equipment used in the manufacture of thin-film disks; and a company that sells contact stop/start test equipment for computer hard disk drives and drive components. In addition, Intevac believes that its expertise and technology may have applications other than for thin-film disk manufacturing and intends to expand its product offerings to other applicable markets through internal development or acquisitions of products or technologies. In this regard, the Company is currently developing products for the flat panel display industry.

PRODUCTS AND TECHNOLOGY

HOW SPUTTERING WORKS

Sputtering is a vacuum deposition process for creating thin uniform layers of very pure materials by bombarding a target of the desired material with energetic ions of a noble gas, usually Argon. The Argon ions strike the surface of the target with sufficient energy to dislodge atoms from the target and propel them away from the target surface. These dislodged atoms coat the surface of the substrate and form the desired film. Conditions for sputtering are achieved through the proper combination of vacuum level, electric field and magnetic field. The following diagram depicts the sputtering of a thin-film layer on a disk:

LOGO

THE MDP-250B DISK SPUTTERING SYSTEM

The Company's principal product is the MDP-250B disk sputtering system, introduced in 1994, and is the fourth generation of the Company's "Magnetic Disk Processing" systems. The MDP-250B is fully automated, has 12 independent process stations and achieves throughput of approximately 450 disks per hour. Including sales by Varian prior to the acquisition, the Company has sold 80 MDP systems, of which 13 are MDP-250B systems. The Company's list prices for the MDP-250B range from \$2.0 million to \$4.0 million, depending upon configuration, with the most common configurations resulting in end user prices of \$2.5 million to \$3.0 million.

The MDP-250B was designed by the Company to meet current requirements for the production of media and to provide the capability to meet future requirements. The MDP-250B is capable of producing disks with coercivity in excess of 2,500 Oe with or without a costly platinum based magnetic layer. In addition, the MDP-250B has the capability to sputter multi-layers (multiple magnetic layers with interspersed non-magnetic layers) onto alternative substrates (such as glass and ceramic), as well as conventional aluminum substrates, and also to make media with the appropriate characteristics for use with MR heads.

The mechanical design of the MDP-250B has characteristics which are similar to the cluster tools which are widely used in semiconductor manufacturing since each process station is separately vacuum pumped and is vacuum isolated during processing. The MDP-250B does not require a carrier or pallet to transport disks through the system. Cassettes containing 25 substrates are automatically are

moved one at a time to pedestals located on the rim of the disk transfer wheel. This wheel moves up and down and rotates, moving the disks sequentially into and out of the process chambers. When the wheel is in its up position, each process chamber is vacuum isolated from the transport chamber and from other process stations. The disks pass through up to 12 process stations, and are then placed in a cassette, which when full, moves into the exit load lock, from which it moves into the exit conveyor.

The following drawing shows the transport mechanism designed into the MDP-250B disk sputtering system:

LOGO

Any number of process steps, up to 12, can be outfitted as the customer requires. The process station options include the direct current ("DC") or radio frequency ("RF") sputter process stations, an infrared substrate heating station, a gas conduction substrate cooling station and a sputter etch cleaning station. The Company designed its MDP-250B with twelve stations, more than current needs require, in order to support future, more complex manufacturing processes. The 12 independent process stations make it possible to produce disks with multi-layers, which reduce noise and thereby increase the signal to noise level of the data stream that is read from the disk. This permits higher recording density and data rates. Furthermore, process stations can be moved from any machine process position to any other to easily accommodate process changes.

The sputtering sources have been designed to provide for high utilization of the target material thus reducing the cost of depositing the various thin films. The Company is currently redesigning its CM-GUN, the sputtering source currently used in the MDP-250B, to provide for greater target utilization and longer target life. The Company is planning to incorporate the ES-GUN sputtering source acquired from Cathode into the MDP-250B. The ES-GUN electrically sweeps plasma radially at the target which results in greater target utilization, longer target life and permits the deposition of two different materials sequentially in the same chamber. In addition, the Company is developing the RM-GUN sputtering source which uses a special rotating magnet assembly designed to achieve greater target utilization and longer target life for both magnetic and non-magnetic targets.

MDP-250B operation is controlled by a computer program which displays commands and process information on a color monitor. A user interface is provided which allows an operator to monitor process and to access the programmable controller. A color display unit and a keyboard located in the clean room enable an operator or engineer to access the computer program to control deposition or other processes through appropriate menu choices, to monitor deposition data, or to call up certain access-protected service mode subroutines. A data logging feature of the system enables users to transmit to a host computer the values of the parameters existing at each process station, providing valuable quality control information.

A "top coat" is sputtered onto the disk immediately over the magnetic recording layer to protect the recording layer from corrosion and mechanical damage due to head contact and to provide a surface condition that in conjunction with the lubrication layer minimizes "stiction," the tendency of the head to stick to the disk surface. The top coat is typically carbon or a carbon based substance. The Company believes that optimum deposition of carbon occurs at a lower temperature than is required for the magnetic layer. The MDP-250B incorporates a patented cooling station which permits the required reduction of disk temperature to be achieved within a few seconds. The Company believes that this feature plus the capability to sputter carbon in conjunction with hydrogen or nitrogen makes it possible for the MDP-250B to produce disks that are highly durable.

The MDP-250B sputters 3 1/4 inch and smaller diameter disks. The Company is currently developing the MDP-250C sputtering system which will have all the features of the MDP-250B but will sputter 5 1/4 inch diameter disks.

RELATED DISK MANUFACTURING AND TEST EQUIPMENT

The Company has recently acquired two companies with product lines that complement the MDP-250B. In May 1996, the Company acquired San Jose Technology Corp. ("SJT"), a leading supplier of systems used to lubricate thin-film disks. Lubrication is the production step that typically follows disk sputtering in the manufacture of thin-film disks. During lubrication, a microscopic layer of lubricant is applied to the disk's surface to improve durability and reduce surface friction. SJT's products allow thin-film disk manufacturers to uniformly lubricate disks in a temperature controlled, low vibration, contamination free environment with a minimal amount of solvent loss. In June 1996, the Company acquired Lotus Technologies, Inc. ("Lotus"), a leading manufacturer of contact stop/ start ("CSS") test equipment for hard disk drives and drive components. The Lotus family of PC-based CSS test equipment performs precise measurements of disk wear, friction, stiction and start-stop torques related to the interface of the read-write head with the thin-film disk. The Company intends to use the Lotus expertise in head-disk interface and CSS testing to further improve the Company's disk sputtering and disk lubrication equipment.

INTEVAC TECHNOLOGY AND SKILLS

The design and fabrication of sputtering systems for thin film disk production requires a broad range of technologies and skills, including:

- - Sputtering processes
- - Sputter source design
- - Thin film characterization
- - Vacuum system design
- Thermal systems design
- Design of complex electromechanical systems
- Material transport systems and robotics
- Computer based control systems

The Company's scientists and engineers are knowledgeable about disk manufacturing processes and work with the Company's customers to design hardware and software systems to meet the customers' requirements. The Company has a MDP-250B in its laboratories to run various process tests for customers to determine the suitability of the machine for their production process, and also for the Company's design engineering department to test newly designed process capabilities. The Company

believes that its process expertise, and the ability to communicate with its customer's process scientists, gives it an important competitive advantage.

The Company has the expertise to design apparatus for rapid, uniform substrate heating and cooling, substrate cleaning using glow discharge and sputter etch techniques, as well as both DC and RF sputtering. A particular area of Company expertise is computer modeling, as well as practical design of the electromagnetic magnetron sputtering sources which are at the heart of the system. The Company believes that the ability to control magnetic field strength using electromagnetic magnetrons is an advantage in maintaining tight process control. The Company's computer programs also are used to calculate the uniformity of sputtered film thickness and magnetic characteristics and the overall utilization of target materials.

NEW BUSINESS PROJECT: FPD MANUFACTURING EQUIPMENT

In recent years, flat panel displays ("FPDs") have emerged as a display technology for a variety of applications such as PCs, workstations and video displays. The manufacture of several types of flat panel displays such as STN, AMLCD and FED require the use of a sputtering process to deposit thin-film layers of different materials onto a glass substrate.

In 1992, after evaluating the dynamics of the FPD market and the technical requirements of meeting that market need, the Company initiated a program to develop a sputtering system for this market as the first step to enter this business area. The Company believes that the skills and technologies that it has developed for the thin-film disk manufacturing industry are directly applicable to the FPD manufacturing industry. These skills and technologies include its expertise and experience in sputtering, rapid heating, high vacuum, isolated process chambers and material handling. In addition, as with the thin-film disk manufacturing industry, the FPD industry involves providing complex, expensive capital equipment to a small number of customers worldwide.

Since inception, the Company has invested approximately \$8.6 million in the flat panel sputtering development effort, of which approximately half has been paid by Ebara Corporation ("Ebara"). The Company entered into its agreement with Ebara in September 1992. Under the agreement, as amended, Ebara has agreed to pay one-half of the development costs of the flat panel sputtering system, up to a maximum amount of \$5.5 million, in exchange for joint ownership of the intellectual property rights, the exclusive right to manufacture flat panel sputtering systems in Japan and the exclusive right to market and sell such systems in the Far East. Under the agreement, the Company has retained the exclusive right to manufacture flat panel sputtering systems in the United States and the exclusive right to market and sell such systems in the United States and Europe. Each party is required to pay royalties to the other party on its flat panel sputtering system sales. The agreement expires five years following completion of the joint development project. The Company has not yet completed development of its flat panel sputtering systems.

In 1994, the Company identified an additional opportunity in the FPD market. Certain advanced FPDs require amorphous silicon deposited on the substrate to be converted into poly-silicon. An effective way to accomplish this is to rapidly heat the amorphous silicon to a high temperature. In 1994, the Company acquired certain assets of Aktis Corporation and certain patents from Baccarat Electronics, Inc. and continued a project to develop a rapid thermal processing ("RTP") system for converting amorphous silicon into poly-silicon. The Company has sold two RTP systems. Also in 1994, ARPA awarded the Company a contract to develop an "All Sputtered Thin Film Transistor."

The Company currently has contracts with ARPA providing for maximum funding over the lives of the contracts of approximately \$3.3 million. As of March 30, 1996, the cumulative billings were approximately \$1.1 million, unspent backlog under these contracts was approximately \$1.3 million and approximately \$0.9 million had not yet been funded under the contracts. In 1995, the Company spent \$4.6 million on research and development, which included \$2.5 million that was spent on research and development related to the Company's FPD efforts. Of the amounts spent on FPD projects during

1995, approximately 72% of the funding was provided by customer sponsored research and development contracts and/or cost sharing agreements.

The Company has limited experience in the development, manufacture, sale and marketing of flat panel display manufacturing equipment, having sold only two RTP systems to date and having not yet completed development of its FPD sputtering system. There can be no assurance that the market for flat panel display manufacturing equipment targeted by the Company will develop as quickly or to the degree the Company currently anticipates, or that the Company's proposed FPD manufacturing equipment will achieve customer acceptance or that the Company will achieve any net revenues from the sale of its proposed FPD manufacturing equipment. There can be no assurance the Company will receive additional customer sponsored research and development funding in the future. The failure to receive additional customer sponsored research and development funds could result in the Company internally funding the development of such FPD manufacturing equipment, and the costs of such research and development may have a material adverse effect on the Company's results of operations. There can be no assurance that the Company in any event will continue to fund research and development in the of FPD area. See "Risk Factors -- Flat Panel Display Manufacturing Equipment Risks."

SALES CHANNEL, CUSTOMERS AND MARKETING

The selling process for the Company's products is often a multi-level and long-term process involving individuals from marketing, engineering, operations, customer service and senior management. The process is lengthy and involves making sample thin-film disks for the prospective customer and responding to individual needs for moderate levels of machine customization. The Company sells and markets its products directly in the United States, and through exclusive distributors in Japan (Matsubo), Taiwan (Scientek) and Korea (Chung Song). The Company has established a subsidiary in Singapore to support its customers in Southeast Asia. The Company is also in the process of increasing its sales and marketing efforts by expanding its marketing and technical support staff. See "Risk Factors -- Management of Expanding Operations."

Historically, a significant portion of the Company's revenues in any particular period have been attributable to sales to a limited number of customers. For example, Western Digital, Matsubo and Trace accounted for 21%, 14% and 11%, respectively, of the Company's total net revenues during 1993, and Trace, Matsubo, Seagate, Varian Associates and Komag accounted for 25%, 15%, 13%, 12% and 10%, respectively, of the Company's total net revenues during 1994. Seagate, HMT Technology and Matsubo accounted for 40%, 20% and 17%, respectively, of the Company's total net revenues during 1995. International sales accounted for 32% of revenue in 1993, 40% in 1994, and 20% in 1995. The Company expects that international sales will continue to be a significant portion of its revenues in the foreseeable future.

Intevac sells static sputtering systems to both captive and merchant thin-film disk manufacturers. Captive thin-film disk manufacturers produce disks to be used in disk drives they manufacture, and merchant thin-film disk manufacturers produce disks to be included in disk drives manufactured by third parties. Since 1991 Intevac systems have been installed for or ordered by the following customers:

Akashic Memories
Fuji Electric
Hitachi
HMT Technology
IBM
Komag
Mitsubishi
Seagate
Trace
Western Digital

The Company participates in trade shows, publishes articles, makes presentations at technical meetings, participates in industry trade groups and consortiums, and distributes promotional literature. See "Risk Factors -- Customer Concentration" and "-- Limited Number of Opportunities."

CUSTOMER SUPPORT

Since media production lines are often operated 24 hours per day, seven days per week, continuing service support is of vital importance and thus the Company provides process and applications support, customer training, installation and start-up assistance and emergency service support to its customers. Over the past 18 months the Company has taken several steps to substantially improve customer support including expanding the training program, increasing the number of service engineers, adding product support engineering capability, reducing delivery times for spare parts and providing 24 hour per day response.

Process and applications support is provided by equipment process scientists who have access to a dedicated MDP-250B in the Company's applications laboratory, and who also visit customers at their plants to assist in process development projects.

The Company conducts training classes for process scientists, machine operators and machine service personnel. Additional training is also given during the machine installation.

Installation and start up of the sputtering systems are provided within the United States by the Intevac customer service organization. This group also assists with the installation and start up of sputtering systems in overseas locations as required.

The Company provides a standard warranty for up to twelve months from customer acceptance or 2,000 hours of operation, whichever occurs first. During this warranty period any necessary non-consumable parts are supplied and installed. Currently the Company has seven full time trained servicemen to provide service to United States customers. Overseas service is provided by the Company's distributor and representatives using personnel who have received training at Intevac. Intevac stocks consumables and spare parts to support the installed base of systems. These parts are available on a 24 hour per day basis. Intevac distributors provide a similar service for overseas customers.

Consistent with the Company's strategy to provide the industry's highest level of service to its customers, the Company is currently establishing operations in Singapore. The subsidiary Intevac is establishing in Singapore will provide customer training, installation, start-up assistance, spare parts and service support to customers in Southeast Asia.

BACKLOG

The Company's backlog was \$45.6 million and \$25.2 million at March 30, 1996 and April 1, 1995, respectively. The Company includes in its backlog only those customer orders for systems, component parts and contract research and development for which it has accepted signed purchase orders with assigned delivery dates. In the case of a cancellation of a system order, the Company's system sales contracts generally provide for a non-refundable deposit, depending upon when the order is cancelled, typically 30%. The equipment requirements for thin-film disk manufacturers cannot be determined with accuracy, and therefore the Company's backlog at any certain date may not be indicative of future demand for the Company's manufacturing systems. See "Risk Factors -- Customer Concentration."

Due to recent increases in demand, the average time between order and shipment of the Company's systems may increase substantially in the future. The Company's ability to quickly increase its manufacturing capacity in response to short-term increases in demand, if any, could be limited given the complexity of the manufacturing process, the lengthy lead times necessary to obtain critical components and the need for highly skilled personnel. The failure of the Company to satisfy any such short-term increases in demand and to keep pace with customer demand would lead to further extensions of delivery times, which could deter customers from placing additional orders, and could adversely affect product quality, which could have a materially adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors -- Manufacturing Risks."

RESEARCH AND DEVELOPMENT

The disk drive industry in general, and the thin film disk manufacturing industry in particular, are characterized by rapid technological change and evolving industry standards. The Company has invested substantial amounts in research and development for its disk sputtering systems and flat panel display manufacturing equipment. The Company's research and development expenses in 1993, 1994, 1995 and the first three months of 1996 were \$3.1 million, \$3.5 million, \$2.6 million, and \$1.4 million respectively, and represented 14.0%, 17.2%, 6.1% and 9.1%, respectively, of net revenues. Research and development expenses do not include costs of \$1.1 million, \$2.0 million and \$0.9 million that were incurred by the Company in 1995, 1994 and 1993, respectively, reimbursed under the terms of a research and development cost sharing agreement with the Company's Japanese development partner. In addition, research and development expenses do not include expenditures in connection with contract research and development activities since these are charged to cost of sales.

The Company expects to continue an active development program to make sputter system improvements to increase machine throughput, add additional capabilities that will improve disk performance, permit optimum utilization of alternative substrates, lower cost of ownership and respond to future market requirements. The Company's ability to remain competitive has required and will continue to require substantial investments in research and development to advance its technologies. The failure to develop, manufacture and market new systems, or to enhance existing systems, would have a material adverse effect on the Company's business, financial condition and results of operations. In the past, the Company has experienced delays from time to time in the introduction of, and certain technical difficulties with, certain of its systems and enhancements. In addition, the Company's competitors can be expected to continue to develop and introduce new and enhanced products, any of which could cause a decline in market demand for the Company's systems or a reduction in the Company's margins as a result of intensified price competition. With respect to the Company's research and development activities related to flat panel display manufacturing equipment, See "-- New Business Project: FPD Manufacturing Equipment." See also, "Risk Factors -- Flat Panel Display Manufacturing Equipment Risks."

Changes in the manufacturing processes for thin-film disks could also have a material adverse effect on the Company's business, financial condition and results of operations. The Company anticipates continued changes in the requirements of the disk drive industry and thin-film disk manufacturing technologies. There can be no assurance that the Company will be able to develop, manufacture and sell systems that respond adequately to such changes. In addition, the data storage industry is subject to constantly evolving technological standards. There can be no assurance that future technological innovations will not reduce demand for thin-film disks. The Company's business, financial condition and results of operations could be materially adversely affected by any trend toward technology that would replace thin-film disks as a storage medium.

The Company's success in developing and selling new and enhanced systems depends upon a variety of factors, including accurate prediction of future customer requirements, technology advances, cost of ownership, introduction of new products on schedule, cost-effective manufacturing and product performance in the field. The Company's new product decisions and development commitments must anticipate the requirements for the continuously evolving disk drive industry approximately two or more years in advance of sales. Any failure to accurately predict customer requirements and to develop new generations of products to meet those requirements would have a sustained material adverse effect on the Company's business, financial condition and results of operations. New product transitions could adversely affect sales of existing systems, and product introductions could contribute to quarterly fluctuations in operating results as orders for new products commence and orders for existing products decline. There can be no assurance that the Company will be successful in

selecting, developing, manufacturing and marketing new products or enhancements of existing products. See "Risk Factors -- Rapid Technological Change."

MANUFACTURING

Substantially all of the Company's manufacturing is conducted at its headquarters facility in Santa Clara, California. The Company's manufacturing operations include electromechanical assembly, mechanical and vacuum assembly, fabrication of the sputter sources, and system assembly, alignment and testing. The Company makes extensive use of the infrastructure serving the semiconductor equipment business. The Company purchases vacuum pumps, valves, instrumentation and fittings, power supplies, printed wiring board assemblies, computers and control circuitry and specialized mechanical parts made by forging, machining and welding. The Company has a well-equipped fabrication center that is capable of producing most of the fabricated metal parts. This capability is used primarily for quick reaction requirements for design work or to cover shortages and most of the parts required for production are purchased from outside suppliers.

The Company's manufacturing strategy is to produce high quality, cost-effective systems and low cost replacement parts and to be able to respond effectively to changes in volume. To do this, the Company currently designs its products to use standard parts where possible. The Company performs manufacturing activities that add value or that require unique technology or specialized knowledge and, taking advantage of its Silicon Valley location, utilizes subcontractors to perform other manufacturing activities.

In certain instances, the Company is dependent upon a sole supplier or a limited number of suppliers, or has qualified only a single or limited number of suppliers, for certain complex components or sub-assemblies utilized in its products. In addition, the Company makes extensive use of suppliers serving the semiconductor equipment business and such suppliers may choose to give priority to their semiconductor equipment customers that are much larger than the Company. Any prolonged inability to obtain adequate deliveries could require the Company to pay more for inventory, parts and other supplies, seek alternative sources of supply, delay its ability to ship its products and damage relationships with current and prospective customers. Any such delay or damage could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's systems have a large number of components and are highly complex. The Company may experience delays and technical and manufacturing difficulties in future introductions or volume production of new systems or enhancements. In addition, some of the systems built by the Company must be customized to meet individual customer site or operating requirements. The Company has limited manufacturing capacity and may be unable to complete the development or meet the technical specifications of its new systems or enhancements or to manufacture and ship these systems or enhancements in a timely manner. Such an occurrence would materially adversely affect the Company's business, financial condition and results of operations as well as its relationships with customers. In addition, the Company may incur substantial unanticipated costs early in a product's life cycle, such as increased cost of materials due to expediting charges, other purchasing inefficiencies and greater than expected installation and support costs which cannot be passed on to the customer. Any of such events could materially adversely affect the Company's business, financial condition and results of operations. See "Risk Factors -- Manufacturing Risks."

COMPETITION

The Company believes that the principal competitive factors are system performance and features, reliability and uptime, overall cost of ownership and customer support. The Company believes that it competes favorably with respect to each of these factors. The Company believes it is the principal United States-based supplier of sputtering systems for thin-film disks.

The Company experiences intense competition worldwide from three principal competitors, Ulvac, Leybold and Anelva, each of which is a large manufacturer of complex vacuum equipment and

thin-film disk manufacturing systems and has sold a substantial number of thin-film disk sputtering machines worldwide. Leybold is a manufacturer of static and in-line sputtering systems, Ulvac is a manufacturer of in-line systems and Anelva is a manufacturer of static systems, and each has substantially greater financial, technical, marketing, manufacturing and other resources than the Company. The Company also experiences competition from other manufacturers of in-line sputtering systems used in thin-film disk fabrication facilities as well as the manufacturers of thin-film disks that have developed the capability to manufacture their own sputtering systems. There can be no assurance that the Company's competitors will not develop enhancements to, or future generations of, competitive products that will offer superior price or performance features or that new competitors will not enter the Company's markets and develop such enhanced products. Furthermore, the failure of manufacturers of thin-film disks currently using in-line machines and manufacturers using internally developed sputtering systems to switch to static sputtering systems in the future could adversely affect the Company's ability to increase its sputtering system market share.

In addition, the Company's three principal competitors are based in foreign countries and have cost structures and system prices based on foreign currencies. Accordingly, currency fluctuations could cause the Company's dollar-priced products to be less competitive than its competitors' products priced in other currencies. Currency fluctuations could also increase the Company's cost structure relative to those of its competitors, which could make it more difficult for the Company to maintain its competitiveness.

Given the lengthy sales cycle and the significant investment required to integrate a disk sputtering system into the manufacturing process, the Company believes that once a thin-film disk manufacturer has selected a particular supplier's disk sputtering equipment, the manufacturer generally relies upon that equipment for the specific production line application and frequently will continue to purchase its other disk sputtering equipment from the same supplier. The Company expects to experience difficulty in selling to a particular customer for a significant period of time if that customer selects a competitor's disk sputtering equipment. Accordingly, competition for customers in the disk sputtering equipment industry is particularly intense, and suppliers of disk sputtering equipment may offer pricing concessions and incentives to attract new customers, which could adversely affect the Company's business, financial condition and results of operations. Because of these competitive factors, there can be no assurance that the Company will be able to compete successfully in the future.

PATENTS AND INTELLECTUAL PROPERTY

The Company places a high value on intellectual property and has an active program to seek patent coverage for discoveries and designs that are believed to have significant value. The Company recognizes patentable inventions by employees through incentive payments to inventors. The Company currently has 23 patents issued in the United States, and has patent applications in the United States and foreign countries. Of the 23 patents, seven relate to sputtering, 11 relate to RTP, one relates to lubrication and four relate to other areas not in Intevac's mainstream business. The Company has the right to utilize certain patents under licensing arrangements with Litton Industries, Varian Associates, Stanford University, Lawrence Livermore Laboratories and Alum Rock Technology.

There can be no assurance that any of the Company's patent applications will be allowed or that any of the allowed applications will be issued as patents. There can be no assurance that any patent owned by the Company will not be invalidated, deemed unenforceable, circumvented or challenged, that the rights granted thereunder will provide competitive advantages to the Company or that any of the Company's pending or future patent applications will be issued with claims of the scope sought by the Company, if at all. Furthermore, there can be no assurance that others will not develop similar products, duplicate the Company's products or design around the patents owned by the Company. In addition, there can be no assurance that foreign patent rights, intellectual property laws or the Company's agreements will protect the Company's intellectual property rights. Failure to protect the

Company's intellectual property rights could have a material adverse effect upon the Company's business, financial condition and results of operations.

There have also been substantial amounts of litigation in the technology industry regarding intellectual property rights. The Company has from time to time received claims that it is infringing third parties' intellectual property rights. In August 1993, Rockwell International Corporation ("Rockwell") sued the Federal government alleging infringement of certain patent rights with respect to the contracts the Federal government has had with a number of companies, including Intevac. The Federal government has notified Intevac that it may be liable to the Federal government in connection with contracts for certain products from the Company's discontinued night vision business. Although the Company believes it will have no material liability to the Federal government under these contracts, there can be no assurance that the resolution of the claims by Rockwell with the Federal government will not have a material adverse effect on the Company's business, operating results and financial condition. In addition, the Company has recently become aware that a third party has sent correspondence to a consortium, of which the Company is a party, in a proposed government sponsored research and development program claiming that the work to be done under this program may infringe patents owned by third party. The Company and its subcontractors have reviewed the correspondence and patents and believe these claims are without merit; however, there can be no assurance that litigation will not result from such development program. There can be no assurance that other third parties will not in the future claim infringement by the Company with respect to current or future patents, trademarks or other proprietary rights relating to the Company's disk sputtering systems, flat panel display manufacturing equipment or other products. Any present or future claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company, or at all. Any of the foregoing could have a material adverse effect upon the Company's business, operating results and financial condition. In addition, the Company believes that one of its competitor's may be infringing the Company's patent rights in connection with products currently being offered by this competitor. Although the Company has not undertaken formal legal proceedings, the Company has informed its competitor that the Company believes its patents are being infringed and that the Company may undertake litigation to protect its patent rights if necessary. If undertaken, such litigation could be expected to be costly, time-consuming and result in legal claims being made against the Company. This could have a material adverse effect on the Company's business, operating results and financial condition, and, in addition, there could be no assurance that the Company would ultimately prevail in any such litigation. See "Risk Factors -- Patents and Other Intellectual Property."

EMPLOYEES

At March 30, 1996, the Company had 193 employees, 11 of whom are contract employees. 187 of these employees are located in California, with 51 in research and development, 87 in manufacturing, and 49 in administration, customer support and marketing. The Company also has 6 employees at its operation in Singapore.

The Company believes that it has good relations with its employees. None of the Company's employees is represented by a labor union, and the Company has never experienced a work stoppage. The Company believes that attracting and motivating skilled technical talent is vital to its success. See "Risk Factors -- Management of Expanding Operations" and " -- Dependence on Key Employees."

FACILITIES

The Company leases all of its facilities, including approximately 90,000 square feet in Santa Clara, California. These buildings house the manufacturing, research and development, marketing and administration, and the Company's headquarters offices. The lease for these buildings expires in June 1999. The Company has an option to extend the lease with respect to 44,000 square feet for an additional five-year period, with a monthly base rent to be negotiated by the Company and the lessor.

If the Company and the lessor are unable to reach agreement with respect to such monthly base rent, the monthly base rent for the extension will be determined by an appraisal process set forth in the lease.

The Company leases a 5,000 square-foot building in Rocklin, California. This building houses the RTP business. This lease expires in January 1997. The Company has an option to extend the lease for an additional three-year period, with a monthly base rent equal to its current base rent plus 5% per year. The Company is currently evaluating the extension of this lease while also reviewing alternate sites for its RTP Business.

The Company leases a facility of approximately 2,400 square feet in Singapore to house the Singapore customer support organization. This lease expires in December 1997. The Company has an option to extend the lease for an additional two years at market rates.

The Company believes that its current facilities are suitable and adequate for its current and foreseeable operations. The Company currently operates with one full manufacturing shift and one partial manufacturing shift and has sufficient manufacturing capacity to produce 4-5 sputtering systems per month without material capital expenditures. The Company believes that it currently has sufficient productive capacity to meet its needs for at least the next 12 months and does not currently anticipate incurring any material capital expenditures during the next 12 months in order to increase its productive capacity for its disk sputtering production facility.

ENVIRONMENTAL REGULATIONS

The Company is subject to a variety of governmental regulations relating to the use, storage, discharge, handling, emission, generation, manufacture, treatment and disposal of toxic or other hazardous substances, chemicals, materials or waste. Any failure to comply with current or future regulations could result in substantial civil penalties or criminal fines being imposed on the Company or its officers, directors or employees, suspension of production, alteration of its manufacturing process or cessation of operations. Such regulations could require the Company to acquire expensive remediation or abatement equipment or to incur substantial expenses to comply with environmental regulations. Any failure by the Company to properly manage the use, disposal or storage of, or adequately restrict the release of, hazardous or toxic substances could subject the Company to significant liabilities. See "Risk Factors -- Environmental Regulations."

MANAGEMENT

DIRECTORS, EXECUTIVE OFFICERS AND KEY EMPLOYEES

The directors, executive officers and key employees of the Company, and their ages as of May 31, 1996, are as follows:

NAME	AGE	POSITION

Directors and Executive Officers:		
Norman H. Pond.....	57	Chairman of the Board, President and Chief Executive Officer
Charles B. Eddy III.....	45	Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary
Robert D. Hempstead.....	52	Chief Operating Officer and General Manager of the Vacuum Systems Division
John R. Dougery(1)(2)....	56	Director
Edward Durbin(1).....	68	Director
David N. Lambeth.....	49	Director
H. Joseph Smead(2).....	70	Director
Key Employees:		
Verle W. Aebi.....	41	Vice President and General Manager of the Advanced Technology Division
Daniel E. Gentry.....	49	Vice President, Sales and Marketing
John Lester Hughes.....	57	Vice President, Engineering
Stephen A. Campano III...	35	Customer Service Manager
Timothy E. Justyn.....	33	Operations Manager
Carlos E. Rodriguez.....	40	Systems Engineering Manager

(1) Member of Audit Committee

(2) Member of Compensation Committee

Mr. Pond is a founder of the Company and has served as Chairman of the Board, President and Chief Executive Officer since February 1991. Before joining the Company, from 1988 to 1990, Mr. Pond served as President and Chief Operating Officer of Varian Associates, Inc. ("Varian"), a publicly held manufacturer of semiconductor, communication, defense and medical products where he was responsible for overall management of Varian's operations. From 1984 to 1988, Mr. Pond was President of Varian's Electron Device and Systems Group and became a Director of Varian in 1986. Prior to joining Varian, Mr. Pond was employed by Teledyne, a diversified electronics company, from 1963 to 1984 where he served in various positions, including as Group Executive. Mr. Pond holds a B.S. in physics from the University of Missouri and an M.S. in physics from the University of California at Los Angeles.

Mr. Eddy has served as Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary of the Company since April 1991. Mr. Eddy served as Chief Financial Officer of Videonics, Inc., a manufacturer of consumer video editing equipment, from 1987 to 1991 and served as Chief Financial Officer of Parallel Computers, Inc., a startup computer company, from 1983 to 1987. Mr. Eddy was with Intel Corporation, a publicly held manufacturer of semiconductor products, from 1974 to 1983 where he served in a variety of positions, including controller and plant manager. Mr. Eddy holds a B.S. in engineering science from the University of Virginia and an M.B.A. from Dartmouth College.

Dr. Hempstead has served as Chief Operating Officer and General Manager of the Vacuum Systems Division of the Company since April 1996. Before joining the Company, Dr. Hempstead served as Executive Vice President of Censtor Corp., a manufacturer of computer disk drive heads and disks, from November 1994 to February 1996. He was a self-employed consultant from 1989 to November 1994. Dr. Hempstead holds a B.S. and M.S. in electrical engineering from the Massachusetts Institute of Technology and a Ph.D. in physics from the University of Illinois.

Mr. Dougery has served as a Director of the Company since February 1991. Mr. Dougery has been a general partner of Dougery & Wilder, a venture capital firm, since 1981. Mr. Dougery currently serves as a director of Printronix and In Focus Systems, both publicly held companies, as well as several privately held technology companies. Mr. Dougery holds an A.B. in mathematics from the University of California at Berkeley and an M.B.A. from Stanford University Graduate School of Business.

Mr. Durbin has served as a Director of the Company since February 1991. Mr. Durbin has been a Senior Vice President of Kaiser Aerospace and Electronics Corporation ("Kaiser"), a privately held manufacturer of electronic and electro-optical systems, responsible for marketing and business development since joining Kaiser in 1975. Mr. Durbin currently serves as a director for all of Kaiser's subsidiaries. Mr. Durbin holds a B.S. in electrical engineering from The Cooper Union and an M.S. in electrical engineering from the Polytechnic Institute of Brooklyn.

Dr. Lambeth has served as a Director of the Company since May 1996. Dr. Lambeth has been Professor of electrical and computer engineering and Associate Director of the Data Storage Systems Center at Carnegie Mellon University since 1989. Since 1988, Dr. Lambeth has been the owner of Lambeth Systems, an engineering consulting firm. From 1973 to 1988, Dr. Lambeth worked at Eastman Kodak Company's Research Laboratories, most recently as the head of the Magnetic Materials Laboratory. Dr. Lambeth holds a B.S. in electrical engineering from the University of Missouri and a Ph.D. in physics from the Massachusetts Institute of Technology.

Dr. Smead has served as a Director of the Company since February 1991. Dr. Smead has been President of Kaiser since joining Kaiser in 1974. Since 1977, Dr. Smead has been President and Chairman of the Board of Directors of K Systems, Inc., Kaiser's parent company. Dr. Smead currently serves as Chairman of the Board of Directors of Kaiser and as a director for all of Kaiser's subsidiaries. Dr. Smead holds a B.S. in electrical engineering from the University of Colorado, an M.S. in electrical engineering from the University of Washington and a Ph.D. in electrical engineering from Purdue University.

Mr. Aebi has served as General Manager of the Advanced Technology Division of the Company since May 1995 and was elected as a Vice President of the Company in September 1995. From 1988 through 1994, Mr. Aebi was the Engineering Manager of the Company's night vision business, where he was responsible for new project development in the areas of advanced photocathodes and image intensifiers. Mr. Aebi holds a B.S. in physics and an M.S. in electrical engineering from Stanford University.

Mr. Gentry has served as Marketing Manager of the Vacuum Systems Division of the Company since March 1991 and was elected as a Vice President, Sales and Marketing of the Company in September 1995. Before joining the Company, from 1988 to 1991, Mr. Gentry served as Vice President, Marketing and Sales at Exclusive Design Company, a private manufacturer of hard disk texturing systems, where he developed the overseas sales and distribution system and directed the domestic sales and marketing activities. Mr. Gentry holds a B.S. and M.S. in electrical engineering from the Massachusetts Institute of Technology and an M.B.A. from Harvard University.

Mr. Hughes has served as Engineering Manager of the Vacuum Systems Division of the Company since February 1991 and was elected as a Vice President of the Company in September 1995. Before joining the Company, from 1984 through 1991, Mr. Hughes served as Engineering Manager of the vacuum systems business of Varian where he was responsible for the management of research and development and engineering of disk sputtering systems. Mr. Hughes holds a B.A. in physics from San Francisco State University.

Mr. Campano has served as Customer Service Manager of the Company since August 1995 and previously served as Manufacturing Manager and Product Manager of Intevac's night vision business

since joining the Company in 1991. Currently Mr. Campano is responsible for all of the Company's customer service activities, including field service engineering, product support engineering, training and spare parts support. Before joining the Company, from 1987 to 1991 Mr. Campano held various management positions with Varian, including Quality Engineer Manager and Quality Assurance Manager. Mr. Campano holds a B.S. in mechanical engineering from the United States Military Academy.

Mr. Justyn has served as Operations Manager of the Company since July 1995, where he is responsible for manufacturing and materials. From 1984 to 1995, Mr. Justyn held various positions in Intevac's night vision business including Engineering Manager, Environmental Health and Safety Manager, Manufacturing Business Manager and New Product Development Manager. Mr. Justyn holds a B.S. in chemical engineering from the University of California at Santa Barbara.

Mr. Rodriguez has served as Systems Engineering Manager of the Company since February 1991, where he is responsible for managing new systems development and ongoing engineering activity. Before joining the Company, from 1984 to 1991 Mr. Rodriguez held various positions at Varian's vacuum systems business including design engineer and project engineer and was part of the team that manufactured the first MDP disk sputtering system in 1984. Mr. Rodriguez holds a B.S. in mechanical engineering from the University of Pernambuco, Brazil.

DIRECTOR COMPENSATION

Directors of the Company do not receive compensation for services provided as a director. The Company also does not pay compensation for committee participation or special assignments of the Board of Directors. However, all directors are eligible to receive option grants under the Discretionary Option Grant Program, and non-employee directors receive periodic option grants under the Automatic Option Grant Program, of the 1995 Stock Option/Stock Issuance Plan. See "-- 1995 Stock Option/Stock Issuance Plan."

SUMMARY OF EXECUTIVE COMPENSATION

The following table provides certain summary information concerning the compensation earned for the 1995, 1994 and 1993 fiscal years, as applicable, by (i) the Company's Chief Executive Officer and (ii) each of the two other executive officers of the Company whose compensation was in excess of \$100,000 for the 1995 fiscal year. Such individuals will be hereafter referred to as the Named Executive Officers.

NAME AND PRINCIPAL POSITION	YEARS	ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS	ALL OTHER COMPENSATION (2)
		SALARY (1)	BONUS	NUMBER OF SECURITIES UNDERLYING OPTIONS	
Norman H. Pond..... President and Chief Executive Officer	1995	\$279,990	--	193,333	\$ 2,741
	1994	240,000	--		2,460
	1993	239,423	--		1,700
Charles B. Eddy III..... Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary	1995	127,691	\$25,000	83,332	1,011
	1994	115,774	15,000		10,000
	1993	107,692	10,000		6,666
William C. Johnson(3)..... Vice President and General Manager of the Vacuum Systems Division	1995	150,000	20,000	66,666	1,102
	1994	57,552	20,000		50,000
	1993	--	--		--

(1) Includes salary deferral contributions to the Company's 401(k) Plan.

(2) The indicated amount for each Named Executive Officer is comprised of the contributions made by the Company on behalf of such individual to the Company's 401(k) Plan which match part of such officer's salary deferral contributions to that plan, plus the cost of any life insurance in excess of \$50,000 paid by the Company.

(3) Mr. Johnson left the position of Vice President and General Manager of the Vacuum Systems Division in 1996 and was replaced by Dr. Hempstead.

STOCK OPTION GRANTS

The following table contains information concerning the stock option grants made to each of the Named Executive Officers during the 1995 fiscal year. Except for the limited stock appreciation rights described in footnote (1) below, no stock appreciation rights were granted to those individuals during such year.

NAME	INDIVIDUAL GRANTS(1)				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1995	EXERCISE OR BASE PRICE PER SHARE(2)	EXPIRATION DATE	OF STOCK PRICE APPRECIATION FOR OPTION TERM(3) 5%	10%
Norman H. Pond.....	193,333	27.3%	\$6.00	08/06/05	\$729,517	\$1,848,738
Charles B. Eddy III.....	16,666	2.4	2.17	06/29/05	22,797	57,771
	66,666	9.4	6.00	08/06/05	251,555	637,491
	16,666	2.4	2.17	06/29/05	22,797	57,771
William C. Johnson.....	50,000	7.1	6.00	08/06/05	188,668	478,123

(1) Each option, with the exception of Mr. Pond's option to purchase 83,333 shares, is immediately exercisable for all of the option shares. However, any shares purchased under the option will be

subject to repurchase by the Company, at the original exercise price paid per share, upon the optionee's cessation of service with the Company prior to vesting in those shares. The option shares will vest in a series of five

(5) successive equal annual installments upon the optionee's completion of each year of service over the five (5) year period measured from the grant date. In addition, the option shares will vest in full upon an acquisition of the Company by merger or asset sale, unless the options are assumed by the acquiring entity and the Company's repurchase right with respect to the option shares is transferred to the acquiring entity. Each option has a maximum term of 10 years measured from the option grant date, subject to earlier termination following the optionee's cessation of service with the Company. Each option also includes a limited stock appreciation right which provides the optionee with a right, exercisable upon the successful completion of a hostile tender offer for forty percent (40%) or more of the Company's outstanding voting securities, to surrender the option to the Company, to the extent the option is at that time exercisable for vested shares, in return for a cash distribution per surrendered option share equal to the excess of (i) the highest price per share of Common Stock paid in the hostile tender offer over (ii) the option exercise price payable per share.

(2) The exercise price may be paid in cash, in shares of the Company's Common Stock valued at fair market value on the exercise date or through a cashless exercise procedure involving a same-day sale of the purchased shares. The Company may also finance the option exercise by loaning the optionee sufficient funds to pay the exercise price for the purchased shares, plus any Federal and state income tax liability incurred by the optionee in connection with such exercise.

(3) There can be no assurance provided to any executive officer or any other holder of the Company's securities that the actual stock price appreciation over the 10-year option term will be at the 5% and 10% assumed annual rates of compounded stock price appreciation or at any other defined level. Unless the market price of the Common Stock appreciates over the option term, no value will be realized from the option grant made to the Named Executive Officer.

AGGREGATED OPTION EXERCISES AND YEAR-END OPTION VALUES

The following table sets forth information concerning option exercises and option holdings for the 1995 fiscal year by each of the Named Executive Officers. Except for the limited stock appreciation rights described in footnote

(1) to the table in "-- Stock Option Grants" above, no stock appreciation rights were exercised during such year or were outstanding at the end of that year.

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE	VALUE REALIZED(1)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FISCAL YEAR-END	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FISCAL YEAR-END
			EXERCISABLE/ UNEXERCISABLE(2)	EXERCISABLE/ UNEXERCISABLE(3)
Norman H. Pond.....	385,999	\$ 781,648	126,669/66,664	\$ 79,168/\$41,665
Charles B. Eddy III.....	16,666	5,999	27,291/56,041	80,805/ 35,025
William C. Johnson.....	--	--	75,833/40,833	302,393/ 25,520

(1) Equal to the fair market value of the purchased shares on the option exercise date less the exercise price paid for those shares.

(2) For options that are immediately exercisable for all the option shares, any shares purchased under those options will be subject to repurchase by the Company, at the original exercise price paid per share, upon the optionee's cessation of service with the Company prior to vesting in such shares. As of December 31, 1995, the repurchase right had lapsed as to none of Mr. Pond's option shares, none of Mr. Eddy's option shares and 10,000 of Mr. Johnson's option shares.

(3) Based on the market price of \$6.625 per share, which was the closing sales price per share of the Company's Common Stock as reported on the Nasdaq National Market on the last day of the 1995 fiscal year, less the exercise price payable for such shares.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee of the Company's Board of Directors was formed on September 14, 1995, and the initial members of the Compensation Committee were Messrs. John Chapin, John Dougery and H. Joseph Smead. Mr. Chapin did not stand for re-election to the Board of Directors at the Company's annual meeting in May 1996, and the current members of the Compensation Committee consist of Messrs. Dougery and Smead. None of these individuals was at any time during the 1995 fiscal year, or at any other time, an officer or employee of the Company. No executive officer of the Company serves as a member of the board of directors or compensation committee of any other entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee.

1995 STOCK OPTION/STOCK ISSUANCE PLAN

The Company's 1995 Stock Option/Stock Issuance Plan (the "1995 Plan") is intended to serve as the successor equity incentive program to the Company's 1991 Stock Option/Stock Issuance Plan (the "Predecessor Plan"). The 1995 Plan was adopted by the Board of Directors on September 14, 1995 and approved by the stockholders on September 26, 1995. 1,883,667 shares of Common Stock have been authorized for issuance under the 1995 Plan. This share reserve is comprised of

(i) the shares which remained available for issuance under the Predecessor Plan, including the shares subject to outstanding options thereunder, plus (ii) an additional increase of approximately 515,000 shares. Those outstanding options were incorporated into the 1995 Plan at the time the Underwriting Agreement for the Company's initial public offering was executed, and no further option grants or share issuances have been made under the Predecessor Plan. The incorporated options will continue to be governed by their existing terms, unless the Plan Administrator elects to extend one or more features of the 1995 Plan to those options. However, except as otherwise noted below, the outstanding options under the Predecessor Plan contain substantially the same terms and conditions summarized below for the Discretionary Option Grant Program in effect under the 1995 Plan.

The 1995 Plan is divided into three separate components: (i) the Discretionary Option Grant Program under which eligible individuals in the Company's employ or service may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock at an exercise price not less than 85% of their fair market value on the grant date, (ii) the Stock Issuance Program under which such individuals may, in the Plan Administrator's discretion, be issued shares of Common Stock directly, through the purchase of such shares at a price not less than 85% of their fair market value at the time of issuance or as a bonus tied to the performance of services, and (iii) the Automatic Option Grant Program under which option grants will automatically be made at periodic intervals to eligible non-employee Board members to purchase shares of Common Stock at an exercise price equal to 100% of their fair market value on the grant date.

The Discretionary Option Grant Program and the Stock Issuance Program are administered by the Compensation Committee of the Board. The Compensation Committee as Plan Administrator has complete discretion to determine which eligible individuals are to receive option grants or stock issuances, the time or times when such option grants or stock issuances are to be made, the number of shares subject to each such grant or issuance, the status of any granted option as either an incentive stock option or a non-statutory stock option under the Federal tax laws, the vesting schedule to be in effect for the option grant or stock issuance and the maximum term for which any granted option is to remain outstanding. In no event, however, may any one participant in the 1995 Plan receive option grants or direct stock issuances for more than 200,000 shares per calendar year, except that for the calendar year in which an individual first enters the Company's employ or service, the limit will be increased to 350,000 shares. Upon an acquisition of the Company by merger or asset sale of the

Company, each outstanding option and unvested stock issuance will be subject to full and immediate vesting under certain circumstances, including the involuntary termination of the optionee's service within twelve months following the effective date of such corporate transaction.

The Plan Administrator also has discretion to issue stock appreciation rights under the Discretionary Option Grant Program which provide the holders with the election to surrender their outstanding options for an appreciation distribution from the Company equal to the excess of (i) the fair market value of the vested shares of Common Stock subject to the surrendered option over (ii) the aggregate exercise price payable for such shares. Such appreciation distribution may be made in cash or in shares of Common Stock or a combination of both. Certain outstanding options under the Predecessor Plan include limited stock appreciation rights which provide each holder with the right, exercisable upon the successful completion of a hostile tender offer for forty percent (40%) or more of the Company's outstanding voting securities, to surrender his or her outstanding options to the Company, to the extent those options are at the time exercisable for vested shares, in return for a cash distribution per surrendered option share equal to the excess of (i) the greater of the fair market value on the date the option is surrendered or the highest price per share of Common Stock paid in the hostile tender offer over (ii) the option exercise price payable per share.

The Plan Administrator has the authority to effect, with the consent of the affected option holder, the cancellation of outstanding options under the Discretionary Option Grant Program (including options incorporated from the Predecessor Plan) in return for the grant of new options for the same or different number of option shares with an exercise price per share based upon the fair market value of the Common Stock on the new grant date.

Under the Automatic Option Grant Program, each individual serving as a non-employee Board member on the date the Underwriting Agreement for the Company's initial public offering was executed received an option grant on such date for 10,000 shares of Common Stock, provided such individual had not otherwise been in the prior employ of the Company. Each individual who first becomes a non-employee Board member at any time thereafter will receive a similar 10,000-share option grant on the date such individual joins the Board, provided such individual has not been in the prior employ of the Company. In addition, on the date of each Annual Stockholders Meeting, beginning with the 1996 Annual Meeting, each individual who will continue to serve as a non-employee Board member will receive an option grant to purchase an additional 2,500 shares of Common Stock, whether or not such individual has been in the prior employ of the Company, provided such individual has served as a non-employee Board member for at least six months. Automatic grants were made to the Company's non-employee Board members in connection with the Company's 1996 Annual Meeting.

Each automatic grant will have a term of 10 years, subject to earlier termination following the optionee's cessation of Board service. Each automatic option will be immediately exercisable; however, any shares purchased upon exercise of the option will be subject to repurchase should the optionee cease service as a Board member prior to vesting in those shares. The initial 10,000-share grant will vest in four successive equal annual installments, over the optionee's period of Board service with the first installment to vest upon the Board members completion of one year of Board service. Each additional 2,500-share grant will vest upon the optionee's completion of one year of Board service measured from the grant date. However, each outstanding option will immediately vest upon (i) certain changes in the ownership or control of the Company or (ii) the death or disability of the optionee while serving as a Board member.

The Board may amend or modify the 1995 Plan at any time, however, the Automatic Option Grant Program cannot be amended more frequently than once every six months. The 1995 Plan will terminate on September 30, 2005, unless sooner terminated by the Board.

EMPLOYEE STOCK PURCHASE PLAN

The Company's Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors on September 14, 1995 and approved by the stockholders on September 26, 1995. The Purchase Plan is designed to allow eligible employees of the Company and participating subsidiaries to purchase shares of Common Stock, at semi-annual intervals, through their periodic payroll deductions under the Purchase Plan, and a reserve of 250,000 shares of Common Stock has been established for this purpose.

The Purchase Plan has been structured as a series of successive offering periods, each with a maximum duration of 24 months. However, the initial offering period began on the day the Underwriting Agreement was executed and priced in connection with the Company's initial public offering and will end on the last business day in January 1998.

Individuals who are eligible employees on the start date of any offering period may enter the Purchase Plan on that start date or on any subsequent semi-annual entry date (February 1 or August 1). Individuals who first become eligible employees after the start date of the offering period may join the Purchase Plan on any subsequent semi-annual entry date within that period.

Payroll deductions may not exceed 10% of base salary, and the accumulated payroll deductions of each participant will be applied to the purchase of shares on his or her behalf on each semi-annual purchase date (January 31 and July 31) at a purchase price per share equal to eighty-five percent (85%) of the lower of

(i) the fair market value of the Common Stock on the participant's entry date into the offering period or (ii) the fair market value on the semi-annual purchase date. In no event, however, may any participant purchase more than 750 shares on any one semi-annual purchase date.

The Purchase Plan will terminate on the earlier of (i) the last business day of January 2005, (ii) an earlier date determined by the Board or (iii) the date all shares available for issuance have been sold.

EMPLOYMENT CONTRACTS AND CHANGE OF CONTROL ARRANGEMENTS

The Company does not presently have any employment contracts in effect with any of the Named Executive Officers.

Several change in control arrangements are in effect under the 1995 Plan. In the event the Company is acquired via a merger or asset sale, all outstanding options held by an executive officer of the Company will automatically vest unless these options are assumed by the acquiring company. Any assumed options will subsequently vest in the event an executive officer is terminated by the acquiring company within a specified period following the acquisition. In addition, the Compensation Committee as Plan Administrator of the 1995 Plan has the discretionary authority to accelerate outstanding options in connection with a change in control or the subsequent termination of the employment of an executive officer within a certain period following a change in control. Similar vesting provisions will be in effect for any unvested shares issued under the Stock Issuance Program of the 1995 Plan.

LIMITATION OF LIABILITY AND INDEMNIFICATION MATTERS

The Company's Bylaws provide that the Company may indemnify its directors, officers and other agents in excess of the indemnification otherwise permitted by the provisions of Section 317 of the California Corporations Code. The Company believes that indemnification under its Bylaws covers at least negligence and gross negligence by indemnified parties, and permits the Company to advance litigation expenses to directors in the case of shareholder derivative actions or other actions, against an undertaking by the indemnified party to repay those advances if it is ultimately determined that the indemnified party is not entitled to indemnification by the Company as authorized by the California Corporations Code. The Company also provides liability insurance for its officers and directors.

In addition, the Company's Articles of Incorporation provide that liability of directors to the Company for monetary damages shall be eliminated to the fullest extent permitted under California

law. This provision in the Articles of Incorporation does not eliminate the Directors' fiduciary duty, and in appropriate circumstances equitable remedies such as injunctive or other forms of non-monetary relief will remain available under California law. In addition, each director will continue to be subject to liability for breach of the director's duty of loyalty to the Company for acts or omissions not in good faith or involving intentional misconduct, for knowing violations of law, for actions leading to improper personal benefit to the director and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under California law. The provision also does not affect a director's responsibilities under any other law, such as the federal securities laws or state or federal environmental laws. In addition, the Company has entered into indemnification agreements with each of its current directors and executive officers. The Company believes that its Articles of Incorporation and Bylaw provisions are necessary to attract and retain qualified persons as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"), may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

CERTAIN TRANSACTIONS

On July 28, 1995 the Company entered into an agreement to transfer its leasehold interest in the Ground Lease with The Board of Trustees of the Leland Stanford Junior University for the site of the Company's discontinued night vision business (the "Palo Alto Site") to 601 California Avenue LLC (the "LLC"), a California limited liability company formed and owned by most of the shareholders of the Company, in which the Company owns an interest in the form of a Preferred Share. The Ground Lease is fully paid and expires in the year 2053. The LLC was formed for the purpose of remediation and development of the Palo Alto Site. The Company believes the removal of the buildings, remediation and development of an office building at the Palo Alto Site will maximize the value of its leasehold interest in the Ground Lease. The Company agreed to transfer its interest in the Ground Lease to the LLC to undertake the development project because the Company did not believe it was appropriate for a manufacturer of high-technology products to be engaged in real estate development. In consideration for the Company's transfer of its leasehold interest to the LLC, the Company received a Preferred Share in the LLC equal to the fair market value of the leasehold interest as determined by an independent appraisal conducted by an outside real estate appraisal firm. The Preferred Share was valued at \$3.9 million and has an aggregate liquidation preference equal to the current fair market value of the Palo Alto Site. In addition, the Preferred Share accrues an annual 10% cumulative preferred return which is not payable until the Palo Alto Site is developed and generating operating cash flow which is not expected prior to the end of 1998, if at all. To raise capital for the initial development of the Palo Alto Site, the Company offered interests in the LLC to all shareholders of the Company based upon their percentage ownership of the Company's outstanding capital stock. All executive officers and directors were offered the opportunity to purchase interests in the LLC to the extent of their individual ownership of stock in the Company or to the extent of the ownership of stock of the Company held by their affiliates. Kaiser purchased a \$588,000 interest in the LLC. Messrs. Durbin and Smead are shareholders of K Systems, Inc. ("KSI") which owns all the outstanding stock of Kaiser and may be deemed to have a material financial interest in this transaction but disclaim such interest except as to their pecuniary interest as shareholders of KSI. Certain funds associated with Dougery & Wilder ("Dougery & Wilder Funds") purchased a \$295,400 interest in the LLC. Mr. Dougery may be deemed to have a material financial interest in this transaction but disclaims such an interest, except to the extent of his pecuniary interest arising from his general partnership interest in the general partner of the Dougery & Wilder Funds. Messrs. Pond and Eddy purchased a \$123,000 and an \$8,400 interest in the LLC, respectively. See "Principal and Selling Shareholders".

On August 25, 1995, the preferred shareholders of the Company exchanged all the outstanding shares of Preferred Stock of the Company for Common Stock of the Company and cash (the "Exchange"). Specifically, each share of Preferred Stock was exchanged for two-thirds of a share of Common Stock and \$0.76. The Company effected the Exchange to eliminate the preferential rights of the outstanding shares of Preferred Stock, including preferences for dividends, liquidation, voting and anti-dilution. The Company commissioned an appraisal of the fair market value attributed to the preferences of the Preferred Stock, which appraisal determined that such preferences had a fair market value of \$.76 per share. The cash used to effect the Exchange was an amount the Company believed to be in excess of its operating requirements. Prior to the Exchange, Mr. Pond, beneficially owned 340,000 shares of Preferred Stock and received 226,667 shares of Common Stock and \$258,400 in the Exchange. Prior to the Exchange, Kaiser held 8,400,000 shares of Preferred Stock and received 5,600,000 shares of Common Stock and \$6,384,000 in the Exchange. Messrs. Chapin, Durbin and Smead are shareholders of KSI which owns all the outstanding stock of Kaiser and may be deemed to have a material financial interest in the Exchange, but disclaim such interest except as to their pecuniary interests as shareholders of KSI. Prior to the Exchange, Dougery & Wilder Funds held 4,200,000 shares of Preferred Stock and received 2,800,000 shares of Common Stock and \$3,192,000 in the Exchange. Mr. Dougery may be deemed to have a material financial interest in the Exchange, but disclaims such an interest, except to the extent of his pecuniary interest arising from his general partnership interest in the general partner of the Dougery & Wilder Funds.

In addition, the Company has granted options to certain of its executive officers. See "Management -- Stock Option Grants."

The Company had system and product sales to Varian of \$1,664,000, \$2,491,000, \$1,844,000 and \$476,000 for the years ended December 31, 1993, 1994, and 1995 and the three months ended March 30, 1996, respectively. The Company paid rent to Varian of approximately \$1,352,000, and \$1,056,000 during the years ended December 31, 1993, and 1994, respectively. At March 30, 1996, \$282,000 was due from Varian. The Company has been a subcontractor to Kaiser on certain government contracts and recognized sales of approximately \$105,000, \$406,000 and \$12,000 for the years ended December 31, 1993, 1994, 1995, respectively.

During 1995, the Company redeemed all the outstanding shares of its redeemable Series 1 Preferred Stock held by Varian for \$6.1 million in cash. The Series 1 Preferred Stock was issued to Varian in connection with the acquisition of certain Varian assets by the Company in 1991.

The Company believes that all of the transactions set forth above were made on terms no less favorable to the Company than could have been obtained from unaffiliated third parties. The Company intends that all future transactions, including loans, between the Company and its officers, directors, principal shareholders and their affiliates be approved by a majority of the Board of Directors, including a majority of the independent and disinterested outside directors on the Board of Directors, and be on terms no less favorable to the Company than could be obtained from unaffiliated third parties. In addition, the Company will enter into indemnification agreements with each of its directors and executive officers.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information regarding beneficial ownership of the Company's Common Stock as of May 31, 1996, as adjusted to reflect the sale of shares offered hereby, by (i) each person who is known by the Company to own beneficially more than five percent (5%) of the Company's Common Stock, (ii) each of the Company's directors, Named Executive Officers and other executive officers, (iii) the Selling Shareholders and (iv) all current executive officers and directors as a group.

BENEFICIAL OWNERS	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING(1) (2)		SHARES TO BE SOLD IN OFFERING	SHARES BENEFICIALLY OWNED AFTER OFFERING(1) (2) (3)	
	NUMBER	PERCENT		NUMBER	PERCENT
Kaiser Aerospace and Electronics..... 950 Tower Lane, Suite 800 Foster City, CA 94404	5,600,000	45.7%	600,000	5,000,000	36.3%
Dougery & Wilder Funds(4)..... 155 Bovet Road, Suite 350 San Mateo, CA 94402	2,800,000	22.8%	--	2,800,000	20.4%
Norman H. Pond(5)..... 3550 Bassett Street Santa Clara, CA 95054	1,103,436	8.9%	129,378	974,058	7.0%
Charles B. Eddy(6).....	120,624	*	9,269	111,355	*
Robert D. Hempstead (7).....	250,000	2.0%	--	250,000	1.8%
John R. Dougery(8).....	2,820,700	23.0%	--	2,820,700	20.5%
Ed Durbin(9).....	5,612,500	45.7%	600,000	5,012,500	36.4%
David N. Lambeth(10).....	10,000	*	--	10,000	*
H. Joseph Smead(9).....	5,612,500	45.7%	600,000	5,012,500	36.4%
William C. Johnson(11).....	92,500	*	--	92,500	*
All directors and executive officers as a group (7 persons)(5)(8)(9)(12).....	9,976,560	77.8%	738,647	9,237,913	64.5%
OTHER SELLING SHAREHOLDERS					
Verle Aebi(13).....	63,331	*	1,353	61,978	*
John L. Hughes(14).....	131,665	*	10,000	121,665	*

* Less than 1%.

(1) Except as indicated in the footnotes to this table and pursuant to applicable community property laws, to the Company's knowledge the persons named in the table have sole voting and investment power with respect to all shares of Common Stock.

(2) The number of shares of Common Stock deemed outstanding prior to and after this offering includes the shares issuable pursuant to stock options that may be exercised by the respective person or group within 60 days after May 31, 1996. The number of shares of Common Stock outstanding after this offering includes the 1,500,000 shares of Common Stock offered by the Company hereby.

(3) Assumes no exercise of the Underwriters' over-allotment option.

(4) Includes 2,672,320 shares held by Dougery & Wilder III, a California Limited Partnership ("D&W III"), and 127,680 shares held by DW III International Investors Partnership, a California Limited Partnership ("DW III International").

(5) Includes 960,100 shares held by the Norman Hugh Pond and Natalie Pond Trust DTD 12/23/80 of which Norman Hugh Pond and Natalie Pond are Trustees and options exercisable into 143,336 shares of Common Stock under the 1991 Plan. Excludes 206,663 shares transferred by Mr. Pond to Mr. Pond's relatives or their respective trusts, as Mr. Pond has no voting or dispositive power over such shares.

(6) Includes options exercisable into 43,958 shares of Common Stock.

(7) Includes options exercisable into 250,000 shares of Common Stock.

(8) Includes options exercisable into 12,500 shares of Common Stock and 2,672,320 shares held by DW III, and 127,680 shares held by DW III International Investors Partnership, a California Limited Partnership ("DW III International"). Mr. Dougery, a director of the Company, is a General Partner of Dougery & Wilder Management Partners, a California Limited Partnership, which is the general partner of D&W III and DW III International. Mr. Dougery disclaims beneficial ownership in the shares held by D&W III and DW III International except to the extent of his pecuniary interest therein arising from his general partnership interest in D&W III and DW III International.

(9) Includes options exercisable into 12,500 shares of Common Stock and 5,600,000 shares held by Kaiser Aerospace and Electronics ("Kaiser") Messrs. Durbin and Smead are directors of the Company and are officers and shareholders of KSI, which owns all of the outstanding stock of Kaiser, and share voting and investment powers over the shares of the Company held by Kaiser. Both individuals disclaim beneficial ownership of the shares of the Company held by Kaiser except as to their pecuniary interests as shareholders of KSI.

- (10) Includes options exercisable into 10,000 shares of Common Stock.
- (11) Includes options exercisable into 92,500 shares of Common Stock.
- (12) Includes options exercisable into 577,294 shares of Common Stock.
- (13) Includes options exercisable into 29,999 shares of Common Stock.
- (14) Includes options exercisable into 121,665 shares of Common Stock.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock, no par value, and 10,000,000 shares of Preferred Stock, no par value.

COMMON STOCK

As of March 30, 1996, there were 12,250,959 shares of Common Stock outstanding that were held of record by approximately 550 shareholders, assuming no exercise after March 30, 1996 of outstanding stock options. There will be 13,750,959 shares of Common Stock outstanding (assuming no exercise of the Underwriters' over-allotment option) after giving effect to the sale of the shares of Common Stock offered hereby.

The holders of Common Stock are entitled to one vote per share on all matters to be voted upon by the shareholders. Subject to preferences that may be applicable to any outstanding Preferred Stock, the holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available therefor. See "Dividend Policy." In the event of the liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of Preferred Stock, if any, then outstanding. The Common Stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and nonassessable, and the shares of Common Stock to be issued upon completion of this offering will be fully paid and nonassessable.

UNDESIGNATED PREFERRED STOCK

The Company's Articles of Incorporation authorizes 10,000,000 shares of Preferred Stock. The Board of Directors has the authority to issue the Preferred Stock in one or more series and to fix the price, rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the shareholders. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the shareholders and may adversely affect the voting and other rights of the holders of Common Stock. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of Common Stock, including the loss of voting control to others.

ARTICLES OF INCORPORATION AND BYLAWS

The Articles of Incorporation authorize the issuance of Preferred Stock on terms that the Board of Directors has the authority to fix at the time of issuance. The Articles and Bylaws provide for the elimination of cumulative voting upon the Company becoming a listed corporation. The Bylaws also require that any action taken by shareholders must be effected at a duly called annual or special meeting of shareholders and may not be affected by written consent without a meeting. These provisions of the Articles of Incorporation and Bylaws could discourage potential acquisition proposals and could delay or prevent a change in control of the Company. These provisions are also intended to enhance the likelihood of continuity and stability in the composition of the Board of Directors and in the policies formulated by the Board of Directors and to discourage certain types of transactions that may involve an actual or threatened change of control of the Company. These provisions are designed to reduce the vulnerability of the Company to an unsolicited acquisition proposal. The provisions, alone or in combination, could have the effect of discouraging others from making tender offers for the Company's shares and, as a consequence, they also may inhibit fluctuations in the market price of the Company's shares that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in the management of the Company.

REGISTRATION RIGHTS

Upon completion of this offering, the holders of approximately 7,950,622 shares of Common Stock (the "Registrable Securities") will be entitled to certain rights with respect to the registration of such shares under the Securities Act. Those registration rights have been waived with respect to this offering. Under the terms of an agreement between the Company and the holders of the Registrable Securities, if the Company proposes to register any of its securities under the Securities Act, either for its own account or the account of other security holders exercising registration rights, those holders are entitled to notice of registration and are entitled to include shares of Registrable Securities therein. The holders of a majority of Registrable Securities may also require the Company to file up to two registration statements under the Securities Act at its expense with respect to their Registrable Securities, and the Company is required to use its best efforts to effect that registration. Further, those shareholders may require the Company to file additional registration statements on Form S-3. These registration rights are subject to certain conditions and limitations, among them the right of the underwriters of an offering to limit the number of shares included in that registration.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is The First National Bank of Boston.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, the Company will have 13,750,959 shares of Common Stock outstanding (assuming no exercise of options after March 30, 1996). Of these shares, 4,907,448 shares, including the 2,250,000 shares sold in this offering, will be freely tradeable without restriction or further registration under the Securities Act, except that any shares purchased by "affiliates" of the Company, as that term is defined under the Securities Act ("Affiliates"), may generally only be sold in compliance with the limitations of Rule 144 described below.

The remaining 8,843,511 shares of Common Stock are deemed "Restricted Shares" under Rule 144. The number of shares of Common Stock available for sale in the public market is limited by restrictions under the Securities Act and lock-up agreements under which the holders of such shares have agreed not to sell or otherwise dispose of any of their shares for a period of 90 days after the date of this Prospectus without the prior written consent of Robertson, Stephens & Company LLC. Because of these restrictions, on the date of this Prospectus, no shares other than the 4,907,448 shares set forth above will be eligible for sale. However, 2,800,000 of the Restricted Shares are held by one of the Company's principal shareholders that is an Affiliate of the Company that has not entered into a lock-up agreement with Robertson, Stephens & Company LLC, and therefore would be eligible for sale subject to volume and other restrictions of Rule 144. If those shares are distributed by this Affiliate to the partners of this shareholder who are not affiliated with the Company, a substantial number of those shares would be eligible for sale without restrictions under Rule 144. Beginning 90 days after the date of this Prospectus (or earlier with the prior written consent of Robertson, Stephens & Company LLC), 5,883,333 Restricted Shares (and, to the extent vested, an additional 928,304 shares subject to outstanding stock options as of March 30, 1996) will become available for sale in the public market subject to Rule 144 and Rule 701 of the Securities Act, and 160,178 Restricted Shares will become available for sale in the public market without restrictions under Rule 144.

In general, under rule 144 of the Securities Act as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned "restricted" shares for at least two years, including a person who may be deemed an Affiliate of the Company, is entitled to sell within any three-month period a number of shares of Common Stock that does not exceed the greater of 1% of the then-outstanding shares of Common Stock of the Company (approximately 137,500 shares after giving effect to this offering) or the average weekly trading volume of the Common Stock as reported through the Nasdaq National Market during the four calendar weeks preceding such sale. Sales under Rule 144 of the Securities Act are subject to certain restrictions relating to manner of sale, notice and the availability of current public information about the Company. In addition, under Rule 144(k) of the Securities Act, a person who is not an Affiliate of the Company at any time 90 days preceding a sale, and who has beneficially owned shares for at least three years, would be entitled to sell such shares immediately following this offering without regard to the volume limitations, manner of sale provisions or notice or other requirements of Rule 144 of the Securities Act.

As of March 30, 1996, options to purchase a total of 928,304 shares of Common Stock were outstanding and exercisable. An additional 950,000 shares of Common Stock were available for future option grants or direct issuances under the 1995 Plan. In addition, 250,000 shares of Common Stock were available for issuance under the Company's Employee Stock Purchase Plan. See "Management -- 1995 Stock Option/Stock Issuance Plan," and "-- Employee Stock Purchase Plan," and Note 9 of Notes to Consolidated Financial Statements.

Rule 701 under the Securities Act provides that shares of Common Stock acquired on the exercise of outstanding options may be resold by persons other than Affiliates, subject only to the manner of sale provisions of Rule 144, and by Affiliates, subject to all provisions of Rule 144 except its two-year minimum holding period. The Company has filed a registration statements on Form S-8, to register a total of 250,000 shares of Common Stock reserved for issuance under the Company's Employee Stock Purchase Plan, and 1,883,667 shares of Common Stock subject to outstanding options or reserved for issuance under the 1995 Plan. Shares of Common Stock issued pursuant to these plans from time to

time will be available for sale in the public market, subject to Rule 144 volume limitations applicable to affiliates.

After this offering, the holders of 7,950,622 shares of Common Stock will be entitled to certain demand and piggyback registration rights with respect to such shares. If such holders, by exercising their demand registration rights, cause a large number of shares to be registered and sold in the public market, such sales could have an adverse effect on the market price of the Company's Common Stock. If the Company were required to include in a Company-initiated registration shares held by such holders pursuant to the exercise of their piggyback registration rights, such sales may have an adverse effect on the Company's ability to raise needed capital. See "Description of Capital Stock -- Registration Rights."

UNDERWRITING

The Underwriters named below, acting through their representatives, Robertson, Stephens & Company LLC and Hambrecht & Quist LLC (the "Representatives"), have severally agreed with the Company and the Selling Shareholders, subject to the terms and conditions of the Underwriting Agreement, to purchase the numbers of shares of Common Stock set forth opposite their respective names below. The Underwriters are committed to purchase and pay for all of such shares if any are purchased.

UNDERWRITERS	NUMBER OF SHARES
Robertson, Stephens & Company LLC	
Hambrecht & Quist LLC.....	
Total.....	2,250,000
	=====

The Representatives have advised the Company and the Selling Shareholders that the Underwriters propose to offer the shares of Common Stock to the public at the initial public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession of not in excess of \$ per share, of which \$ may be reallocated to other dealers. After the public offering, the public offering price, concession and reallocation to dealers may be reduced by the Representatives. No such reduction shall change the amount of proceeds to be received by the Company and the Selling Shareholders as set forth on the cover page of this Prospectus.

The Company has granted the Underwriters an option, exercisable during the 30-day period after the date of this Prospectus, to purchase up to 337,500 additional shares of Common Stock at the same price per share as the Company and Selling Shareholders receives for the 2,250,000 shares that the Underwriters have agreed to purchase. To the extent that the Underwriters exercise such option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage of such additional shares that the number of shares of Common Stock to be purchased by it shown in the above table represents as a percentage of the 2,250,000 shares offered hereby. If purchased, such additional shares will be sold by the Underwriters on the same terms as those on which the 2,250,000 shares are being sold.

The Underwriting Agreement contains covenants of indemnity among the Underwriters, the Company and the Selling Shareholders against certain civil liabilities, including liabilities under the Act.

Each officer and director of the Company, other than Mr. Dougery, the Selling Shareholders and certain other persons that beneficially own or have dispositive power over shares of the Company's Common Stock, have agreed with the Representatives, until 90 days after the date of this Prospectus (the "Lock-Up Period"), subject to certain exceptions, not to offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to any shares of Common Stock, any options or warrants to purchase any shares of Common Stock, or any securities convertible into or exchangeable for shares of Common Stock now owned or hereafter acquired directly by such holders or with respect to which they have or hereafter acquire the power of disposition, without the prior written consent of Robertson, Stephens & Company LLC. Robertson, Stephens & Company LLC may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements. Substantially all of such shares will be eligible for immediate public sale following expiration of the Lock-Up Period, subject to the provisions of Rule 144. In addition, the Company has agreed that during the Lock-Up Period, the Company will not, without the prior written consent of Robertson, Stephens & Company LLC, subject to certain exceptions, issue, sell, contract to

sell, or otherwise dispose of, any shares of Common Stock, any options or warrants to purchase any shares of Common Stock or any securities convertible into, exercisable for or exchangeable for shares of Common Stock other than the Company's sales of shares in this offering, the issuance of Common Stock upon the exercise of outstanding options, the Company's issuance of options under existing employee stock option plans, and the issuance of Common Stock under the Company's existing Employee Stock Purchase Plan. See "Shares Eligible for Future Sale."

The rules of the Commission generally prohibit the Underwriters and other members of the selling group, if any, from making a market in the Company's Common Stock during the "cooling-off" period immediately preceding the commencement of sales in the offering. The Commission has, however, adopted exemptions from these rules that permit passive market making under certain conditions. These rules permit an underwriter or other members of the selling group, if any, to continue to make a market subject to the conditions, among others, that its bid not exceed the highest bid by a market maker not connected with the offering and that its net purchases on any one trading day not exceed prescribed limits. Pursuant to these exemptions, certain Underwriters and other members of the selling group, if any, may engage in passive market making in the Company's Common Stock during the cooling-off period.

LEGAL MATTERS

The validity of the Common Stock offered hereby will be passed upon for the Company by Brobeck, Phleger & Harrison LLP, Palo Alto, California. Certain legal matters for the offering will be passed upon for the Underwriters by Wilson, Sonsini, Goodrich & Rosati, Professional Corporation, Palo Alto, California. As of the date of this Prospectus, members of Brobeck, Phleger & Harrison LLP beneficially own an aggregate of approximately 7,150 shares of the Company's Common Stock.

EXPERTS

The consolidated financial statements of Intevac, Inc. at December 31, 1994 and 1995, and for each of the three years in the period ended December 31, 1995, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The financial statements of Lotus Technologies, Inc. at January 31, 1996, and for the year then ended, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

AVAILABLE INFORMATION

The Company has filed with the Securities and Exchange Commission, Washington, D.C. 20549, a Registration Statement, of which this Prospectus constitutes a part, on Form S-1 under the Act with respect to the Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules to the Registration Statement. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and the exhibits and schedules filed as a part of the Registration Statement. Statements contained in this Prospectus concerning the contents of any contract or any other document referred to are not necessarily complete; reference is made in each instance to the copy of such contract or document filed as an exhibit to the Registration Statement. Each such statement is qualified in all respects by such reference to such exhibit. The Registration Statement, including exhibits and schedules thereto, may be inspected without charge at the Securities and Exchange Commission's public reference facilities described below, and copies of all or any part

thereof may be obtained from such facilities after payment of fees prescribed by the Securities and Exchange Commission.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549, and at the Commission's Regional Offices: Seven World Trade Center, 13th Floor, New York, New York 10048; and at Northwest Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material may be obtained at prescribed rates from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549. The Common Stock of the Company is quoted on the Nasdaq National Market. Reports and other information concerning the Company may be inspected at the offices of the Nasdaq Stock Market at 1735 K Street, N.W., Washington, D.C. 20006.

GLOSSARY

ACTIVE MATRIX LIQUID CRYSTAL DISPLAY (AMLCD): A display which uses a transistor at each picture element.

ADVANCED RESEARCH PROJECTS AGENCY (ARPA): United States Department of Defense's Advanced Research Projects Agency.

AMORPHOUS SILICON: A glassy form of silicon which does not have a crystalline structure.

AREAL DENSITY: The number of bits of data stored per unit of area.

ASPERITY CONTROL: A means of eliminating or preventing the formation of protrusions on the disk surface.

BIT: The basic unit of storage of information in a computer system. Bits are represented by the presence or absence of changes in orientation of the magnetic domains along a track on the storage media.

BYTE: Equal to eight bits.

CAPTIVE THIN-FILM DISK MANUFACTURER: A producer of disks to be used in disk drives manufactured by such producer.

COERCIVITY: A measure of the magnetic strength of the disk which is expressed in Oersteds.

CONDENSATE: The collection of sputtered material on the pallet that repeatedly passes through an in-line sputtering machine.

CSS TESTING: Contact Stop/Start testing performs precise measurements of disk wear, friction, stiction and start-stop torques related to the interface of the read-write head with the thin-film disk.

DEFECTS: The surface or magnetic imperfections of a disk.

DISK: A magnetically coated substrate which spins inside a hard disk drive and is used as the storage medium for digital data.

DISK SPUTTERING LINES: A sputtering system and related equipment such as plating, polishing, texturing, lubrication and test equipment as well as related handling equipment.

FIELD EMISSION DISPLAY (FED): A type of flat panel display based on electrons emitted from an array of point sources.

FLAT PANEL DISPLAY SCREENS: The screens used in portable computers and televisions.

FLAT PANEL DISPLAY SPUTTERING SYSTEM: A system designed to coat glass panels with thin films of various materials. The coated glass panels are used in the manufacture of flat panel display screens.

FLYING HEIGHT: The distance between the head and the disk while the disk drive is operating. Fly height is dependant on the smoothness and flatness of the disk surface.

HARD DISK DRIVE: Comprised of disks that are substrates which have been coated with several thin-film layers and used as a storage medium for digital data.

HIGH PERFORMANCE DISKS: Disks that have relatively high capacity and/or high signal to noise ratio.

IN-LINE DISK SPUTTERING SYSTEM: A system in which disks are contained in a carrier or pallet which moves along a conveyor from station to station.

MAGNETO-RESISTIVE HEADS: Recording heads that use an inductive thin-film element to write data on to the media and read the data with a separate magneto-resistive element. The use of a separate but much more sensitive read element permits data to be recorded and, subsequently, read at much higher track densities than inductive thin-film head technology.

MDP-250B SPUTTERING SYSTEM: The current model Intevac static disk sputtering system.

MEGABYTE: Equal to a million bytes.

MERCHANT THIN-FILM DISK MANUFACTURER: A producer of disks to be included in disk drives manufactured by third-parties.

MOLECULAR BEAM EPITAXY (MBE) SYSTEMS: A specialized vacuum system used for the design and manufacture of materials having the characteristics of semiconductors that are used to produce transistors, opto-electronic devices and integrated circuits.

OERSTED (OES): A unit of magnetic strength.

POLY-SILICON: A silicon layer which consists of multiple, small crystals of silicon.

RAPID THERMAL PROCESSING (RTP) SYSTEM: A system for converting amorphous silicon into poly-silicon.

SIGNAL-TO-NOISE RATIO: The level of the signal divided by the level of background noise.

SPUTTERING: A complex vacuum deposition process used to deposit multiple thin-film layers on a disk.

STATIC SPUTTERING SYSTEM: A system that provides for the deposition of materials with no relative movement between the sputtering source and the disk being coated.

SUBSTRATES: The disk material (typically aluminum) onto which the thin layers of material are sputtered.

SUPER TWISTED NEUMATIC (STN): A type of liquid crystal flat panel display.

THIN-FILMS: For magnetic disks, films with thicknesses measured in microinches (millionths of an inch).

THIN-FILM DISK: A disk incorporating a thin magnetic film capable of storing information in the form of magnetic patterns written and detected by a separate magnetic head.

THIN-FILM DISK MANUFACTURING PROCESS: The various steps required to produce a thin-film disk. Typically includes sputtering, texturing, polishing, and lubrication among others.

THROUGHPUT: The number of disks processed on a given production machine per unit of time.

YIELD: A measure of manufacturing efficiency; the percent of acceptable product obtained from a specific manufacturing process(es).

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Intevac, Inc.

We have audited the accompanying consolidated balance sheets of Intevac, Inc. as of December 31, 1994 and 1995, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 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 consolidated financial position of Intevac, Inc. at December 31, 1994 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

Ernst & Young LLP San Jose, California
February 2, 1996

INTEVAC, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	DECEMBER 31,		MARCH 30,
	1994	1995	1996
			(UNAUDITED)
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 9,268	\$20,422	\$14,119
Short-term investments.....	4,079	--	2,571
Accounts receivable, net of allowances of \$106, \$461 and \$560 at December 31, 1994 and 1995 and March 30, 1996, respectively, and includes related party receivables of \$457, and \$199 at December 31, 1994 and 1995, respectively.....	9,494	4,439	9,753
Inventories, including \$1,402, \$2,579 and \$5,813 at customers at December 31, 1994 and 1995 and March 30, 1996, respectively.....	11,224	16,468	18,308
Short-term note receivable, arising from the sale of the investment in Chorus Corporation, net of allowance of \$593 and \$983 at December 31, 1995 and March 30, 1996, respectively.....	--	177	177
Prepaid expenses and other current assets.....	267	503	348
Deferred tax assets.....	2,251	3,158	3,158
Net current assets of discontinued operations.....	--	777	73
	36,583	45,944	48,507
Property, plant, and equipment, at cost:			
Buildings and improvements.....	4,759	1,416	2,329
Machinery and equipment.....	8,876	3,909	4,319
	13,635	5,325	6,648
Accumulated depreciation and amortization.....	9,001	1,846	2,011
	4,634	3,479	4,637
Investment in Chorus Corporation.....	942	--	--
Long-term note receivable, arising from sale of the investment in Chorus Corporation, net of allowance of \$1,180 and \$790 at December 31, 1995 and March 30, 1996, respectively.....	--	--	--
Investment in 601 California Avenue LLC.....	--	2,431	2,431
Deferred tax assets and other assets.....	590	83	3,029
	\$42,749	\$51,937	\$58,604
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes payable.....	\$ --	\$ --	\$ 1,250
Accounts payable.....	1,816	2,681	2,233
Accrued payroll and related liabilities.....	1,459	1,075	1,189
Accrued income taxes.....	1,092	2,616	1,768
Other accrued liabilities.....	2,177	2,052	2,036
Customer advances.....	6,810	14,436	19,027
Net liabilities of discontinued operations.....	--	1,757	1,153
	13,354	24,617	28,656
Long-term liabilities.....	308	--	730
Redeemable Series 1 preferred stock.....	6,100	--	--
Commitments and contingencies.....			
Shareholders' equity:			
Preferred stock, no par value:			
Authorized shares -- 20,000, none and none at December 31, 1994 and 1995 and March 30, 1996, respectively			
Series A convertible preferred stock, no par value:			
Designated, issued, and outstanding shares -- 13,020, none and none at December 31, 1994 and 1995 and March 30, 1996, respectively.....	13,020	--	--
Undesignated preferred stock, no par value, 10,000 shares authorized, no shares issued and outstanding.....	--	--	--
Common stock, no par value:			
Authorized shares -- 50,000			
Issued and outstanding shares -- 714, 12,248 and 12,251 at December 31, 1994 and 1995 and March 30, 1996, respectively.....	104	15,304	15,305
Retained earnings.....	9,863	12,016	13,913
	22,987	27,320	29,218
Total shareholders' equity.....	22,987	27,320	29,218
Total liabilities and shareholders' equity.....	\$42,749	\$51,937	\$58,604
	=====	=====	=====

See accompanying notes.

INTEVAC, INC.

CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED	
	1993	1994	1995	APRIL 1, 1995	MARCH 30, 1996
	-----	-----	-----	-----	-----
	(UNAUDITED)				
Net revenues:					
Disk, flat panel, and other.....	\$16,026	\$18,266	\$42,187	\$ 4,674	\$15,126
MBE.....	6,370	2,185	695	695	--
	-----	-----	-----	-----	-----
Total net revenues (includes related party revenues of \$1,769, \$2,897 and \$1,856 for the years ended December 31, 1993, 1994, and 1995, respectively, and \$541 for the three months ended April 1, 1995).....	22,396	20,451	42,882	5,369	15,126
Cost of net revenues:					
Disk, flat panel, and other.....	9,749	11,799	27,280	3,244	9,203
MBE.....	5,417	858	434	434	--
	-----	-----	-----	-----	-----
Total cost of net revenues.....	15,166	12,657	27,714	3,678	9,203
	-----	-----	-----	-----	-----
Gross profit.....	7,230	7,794	15,168	1,691	5,923
Operating expenses:					
Research and development.....	3,142	3,515	2,603	340	1,379
Selling, general, and administrative.....	3,896	2,248	4,550	871	1,887
	-----	-----	-----	-----	-----
Total operating expenses.....	7,038	5,763	7,153	1,211	3,266
	-----	-----	-----	-----	-----
Operating income.....	192	2,031	8,015	480	2,657
Other income (expense), net.....	(201)	470	929	234	261
	-----	-----	-----	-----	-----
Income (loss) from continuing operations before income taxes.....	(9)	2,501	8,944	714	2,918
Provision for (benefit from) income taxes....	(75)	826	3,179	247	1,021
	-----	-----	-----	-----	-----
Income from continuing operations.....	66	1,675	5,765	467	1,897
Discontinued operations:					
Income (loss) from discontinued operations, net of applicable income taxes.....	1,457	(267)	(63)	(63)	--
Gain on disposal of discontinued operations including provision of \$2,622 for estimated closing, environmental remediation and warranty costs, net of applicable income taxes.....	--	--	1,398	1,398	--
	-----	-----	-----	-----	-----
Income (loss) from discontinued operations...	1,457	(267)	1,335	1,335	--
	-----	-----	-----	-----	-----
Net income.....	\$ 1,523	\$ 1,408	\$ 7,100	\$ 1,802	\$ 1,897
	=====	=====	=====	=====	=====
Per share:					
Income from continuing operations.....	\$ 0.01	\$ 0.16	\$ 0.54	\$ 0.05	\$ 0.15
Net income.....	\$ 0.15	\$ 0.14	\$ 0.67	\$ 0.18	\$ 0.15
Shares used in per share amounts.....	10,305	10,285	10,606	10,295	12,631

See accompanying notes.

INTEVAC, INC.

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS)**

	SERIES A CONVERTIBLE PREFERRED STOCK		COMMON STOCK		RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT		
Balance at December 31, 1992....	13,020	\$ 13,020	659	\$ 99	\$ 6,932	\$20,051
Sale of common stock under stock option plan.....	--	--	47	14	--	14
Net income.....	--	--	--	--	1,523	1,523
Balance at December 31, 1993....	13,020	13,020	706	113	8,455	21,588
Sale of common stock under stock option plan.....	--	--	37	14	--	14
Repurchase of common stock under stock option plan....	--	--	(29)	(23)	--	(23)
Net income.....	--	--	--	--	1,408	1,408
Balance at December 31, 1994....	13,020	13,020	714	104	9,863	22,987
Exchange of Series A preferred stock for common stock....	(13,020)	(13,020)	8,680	3,125	--	(9,895)
Common stock dividend.....	--	--	--	--	(4,922)	(4,922)
Redeemable Series 1 preferred stock dividend.....	--	--	--	--	(25)	(25)
Sale of common stock under stock option plan.....	--	--	557	174	--	174
Repurchase of common stock under stock option plan....	--	--	(3)	(4)	--	(4)
Sale of common stock through initial public offering....	--	--	2,300	11,905	--	11,905
Net income.....	--	--	--	--	7,100	7,100
Balance at December 31, 1995....	--	--	12,248	15,304	12,016	27,320
Initial public offering costs (unaudited).....	--	--	--	(6)	--	(6)
Sale of common stock under stock option plan (unaudited).....	--	--	3	7	--	7
Net income (unaudited).....	--	--	--	--	1,897	1,897
Balance at March 30, 1996 (unaudited).....	--	\$ --	12,251	\$15,305	\$ 13,913	\$29,218
	=====	=====	=====	=====	=====	=====

See accompanying notes.

INTEVAC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEARS ENDING DECEMBER 31,			THREE MONTHS ENDED	
	1993	1994	1995	APRIL 1, 1995	MARCH 30, 1996

	(UNAUDITED)				
OPERATING ACTIVITIES					
Income from continuing operations.....	\$ 66	\$ 1,675	\$ 5,765	\$ 467	\$ 1,897
Income (loss) from discontinued operations.....	1,457	(267)	1,335	1,335	--
	-----	-----	-----	-----	-----
Net income.....	1,523	1,408	7,100	1,802	1,897
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:					
Depreciation and amortization.....	3,245	1,663	883	341	227
Amortization of non-compete covenant.....	911	--	--	--	13
Amortization of goodwill.....	--	--	--	--	95
Gain on disposition of discontinued operations.....	--	--	(1,398)	(1,398)	--
Loss on disposal of equipment.....	--	--	219	22	--
Reserve for idle equipment due to downsizing the night vision business.....	1,411	--	--	--	--
Changes in assets and liabilities:					
Accounts receivable.....	4,037	(3,829)	5,055	4,830	(5,314)
Progress billings receivable on contracts-in-progress.....	4,642	--	--	--	--
Inventories.....	1,337	(3,827)	(9,116)	(2,112)	(1,840)
Prepaid expenses and other assets.....	(1,335)	1,900	942	(30)	155
Accounts payable.....	(320)	(953)	1,276	1,298	(448)
Accrued payroll and other accrued liabilities.....	(2,036)	(3,586)	676	60	(750)
Customer advances.....	1,106	1,961	7,641	1,786	4,591
Discontinued operations -- noncash changes and working capital changes.....	--	--	(2,770)	(4,328)	100
	-----	-----	-----	-----	-----
Total adjustments.....	12,998	(6,671)	3,408	469	(3,171)
	-----	-----	-----	-----	-----
Net cash and cash equivalents provided by (used in) operating activities.....	14,521	(5,263)	10,508	2,271	(1,274)
INVESTING ACTIVITIES					
Purchase of short-term investments.....	(1,001)	(9,084)	(3,001)	(1,000)	(2,571)
Proceeds from maturities of short-term investments.....	--	6,006	7,080	2,998	--
Purchase of property and equipment.....	(647)	(953)	(3,042)	(745)	(1,385)
Investment in Cathode.....	--	--	--	--	(1,074)
Payment for non-compete covenant.....	(305)	(305)	--	--	--
Proceeds from sale of discontinued operations.....	--	--	7,546	--	--
Proceeds from sale of Chorus Investment.....	--	--	930	--	--
Proceeds from settlement of purchase price arbitration.....	2,014	--	--	--	--
	-----	-----	-----	-----	-----
Net cash and cash equivalents provided by (used in) investing activities.....	61	(4,336)	9,513	1,253	(5,030)
FINANCING ACTIVITIES					
Proceeds from issuance of common stock.....	14	14	12,079	60	1
Repurchase of common stock.....	--	(23)	(4)	(7)	--
Payments of debt obligations.....	(1,834)	--	--	--	--
Dividends on common stock.....	--	--	(4,922)	--	--
Dividends on redeemable Series 1 Preferred Stock.....	--	--	(25)	--	--
Exchange of Series A Preferred Stock for common stock.....	--	--	(9,895)	--	--
Redemption of redeemable Series 1 Preferred Stock.....	--	--	(6,100)	(1,525)	--
	-----	-----	-----	-----	-----
Net cash and cash equivalents provided by (used in) financing activities.....	(1,820)	(9)	(8,867)	(1,472)	1
	-----	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	12,762	(9,608)	11,154	2,052	(6,303)
Cash and cash equivalents at beginning of period.....	6,114	18,876	9,268	9,268	20,422
	-----	-----	-----	-----	-----
Cash and cash equivalents at end of period.....	\$18,876	\$ 9,268	\$20,422	\$ 11,320	\$14,119
	=====	=====	=====	=====	=====
Cash paid (received) for:					
Interest.....	\$ 113	\$ 12	\$ --	\$ --	\$ --
Income taxes.....	2,687	52	3,487	--	1,850
Income tax refund.....	--	(1,120)	(727)	--	--
Other noncash changes:					
Purchase accounting adjustments.....	1,454	--	--	--	--
System transferred from machinery and equipment to inventory.....	380	--	--	--	--
Investment in Cathode through assumption notes payable.....	--	--	--	--	1,980

See accompanying notes.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(INFORMATION RELATING TO THE THREE MONTH PERIODS ENDING APRIL 1, 1995 AND MARCH 30, 1996 IS UNAUDITED)

1. BUSINESS AND NATURE OF OPERATIONS

Intevac, Inc. ("Intevac" or the "Company") was formed in October 1990 for the purpose of acquiring certain business assets and liabilities from Varian Associates, Inc. ("Varian"). In February 1991, certain agreements were entered into between Varian and the Company which provided for the transfer of the assets and business of Varian's disk sputtering equipment business, night vision device business and molecular beam epitaxy ("MBE") equipment business to Intevac.

In October 1993, certain assets of the MBE business were exchanged for a 20% ownership in the outstanding stock of Chorus Corporation ("Chorus"), a manufacturer of MBE products. The Company retained the rights to sell certain residual assets of the MBE business not exchanged with Chorus Corporation. Disposition of these assets was completed during the first quarter of 1995. In the third quarter of 1995, the Company sold its investment interest in Chorus.

In 1994, the Company purchased certain assets from Aktis Corporation and purchased certain patents from Baccarat Electronics, Inc. for \$182,000 which formed the genesis of its Rapid Thermal Processing Operation ("RTP"). RTP is developing a rapid thermal system for use in the production of flat panel displays under Advanced Research Project Agency ("ARPA") contracts. RTP delivered and sold its first RTP system in the first quarter of 1995 and a second RTP system in the first quarter of 1996.

In the second quarter of 1995, the Company completed the sale of its night vision business to Litton Systems, Inc. for cash. The Company retained certain engineering personnel from the night vision business as well as some government contracts for research and development work in photocathodes, various applications of that technology, and development of processes for making thin film transistors with sputtered materials. This activity was organized with the RTP business to form the Advanced Technology Division ("ATD"). ATD expects to continue this type of work and will seek continued customer support for research and development activities.

In the first quarter of 1996, the Company purchased all of the outstanding stock of Cathode Technology Corporation ("Cathode") for \$1,060,000 cash and notes in the aggregate amount of \$2,000,000. Cathode designs and manufactures magnetron sputter sources for use in the Company's disk sputtering systems. This acquisition is accounted for under the purchase method. The notes bear interest at 5.58% compounded monthly and payable quarterly. Principal payments on the notes are made quarterly based upon unit sales of the Cathode sputter sources. Any remaining balance on the notes on January 24, 2001 is due in full regardless of sputter source sales. Cathode licenses its patented magnetron sputter source technology from Alum Rock Technology, Inc. ("Alum Rock") for a royalty of 2.5% of sales of Cathode sputter sources. As part of the transaction the company received from Alum Rock: (1) an exclusive license to use Alum Rock's technology in the disk sputtering business, (2) a non-exclusive license to use Alum Rock's technology in other businesses, and (3) an option to purchase Alum Rock's patents for \$1,000,000. The company has also entered into five year non-compete agreements with the principals of Cathode and Alum Rock.

The Company is a supplier of static sputtering systems used to manufacture thin-film disks for computer hard disk drives. The Company's principal product, the MDP-250B system enables disk manufacturers to achieve high coercivities, high signal-to-noise ratios, minimal disk defects, durability and uniformity, all of which are necessary in the production of high performance, high capacity disks. The Company sells its static sputtering systems to both captive and merchant thin film disk manufacturers. The Company sells and markets its products directly in the United States, and through exclusive distributors in Japan, Taiwan and Korea. The Company supports its customers in Southeast Asia through its wholly owned subsidiary in Singapore.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTH PERIODS ENDING APRIL 1, 1995 AND MARCH 30, 1996 IS UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Intevac and its subsidiaries. All intercompany transactions and balances have been eliminated.

Interim Financial Information

The financial statements and related notes as of March 30, 1996 and for the three months ended April 1, 1995 and March 30, 1996 are unaudited and have been prepared on the same basis as the audited financial statements. The unaudited financial statements include all adjustments (consisting solely of normal recurring accruals) which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the interim period.

Revenue Recognition

Systems and components -- Revenue for system sales is recognized upon customer acceptance. Revenue for system component sales is recognized upon shipment.

Service and Maintenance -- Service and maintenance contract revenue, which to date has been insignificant, is recognized ratably over applicable contract periods or as services are performed.

Technology Development -- The Company performs best efforts research and development work under various research contracts. Revenue on these contracts is recognized in accordance with contract terms, typically as costs are incurred.

These contracts cover such projects as developing a sputtering process for thin film transistors and developing technology for rapid thermal processing of glass substrates. Typically, for each contract, the Company commits to perform certain research and development efforts up to an agreed upon amount. In connection with these contracts, the Company receives funding on an incremental basis up to a ceiling. Upon completion of each contract, each party will typically receive certain rights to the technical and computer software data developed under the contract. In addition, the Company has, from time to time, negotiated with a third party to fund a portion of the Company's costs in return for a joint interest to the Company's rights at the end of the contract.

Net revenues and related cost of net revenues associated with these contracts were \$258,000 and \$256,000 for 1994, respectively, \$1,210,000 and \$1,180,000 for 1995, respectively, \$313,000 and \$304,000 for the three months ended April 1, 1995, respectively and \$367,000 and \$351,000 for the three months ended March 30, 1996, respectively.

Warranty

The Company's standard warranty provides for warranty for 2,000 hours of operation or up to twelve months from customer acceptance, whichever occurs first. During this warranty period any necessary non-consumable parts are supplied and installed. Nonsystem products are warranted for a period of up to twenty four months from shipment. A provision for the estimated cost of warranty is recorded upon customer acceptance for systems and upon shipment for nonsystem products.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTH PERIODS ENDING APRIL 1, 1995 AND MARCH 30, 1996 IS UNAUDITED)

International Distribution Costs

The Company makes payments to agents and distributors under certain agreements related to international sales in return for obtaining orders and providing installation and warranty services. Payments to these agents and distributors are included in cost of net revenues. These amounts totaled approximately \$1,046,000, \$1,289,000, and \$1,866,000 for the years ended December 31, 1993, 1994, and 1995, respectively, and \$18,000 and \$650,000 for the three month periods ending April 1, 1995 and March 30, 1996, respectively.

Advertising Expenses

The Company accounts for advertising costs as expense in the period in which they are incurred. Advertising expenses for 1993, 1994, 1995, and the three months ended March 30, 1996 were insignificant.

Customer Advances

Customer advances generally represent nonrefundable deposits invoiced by the Company in connection with receiving customer purchase orders and shipment of the systems. Customer advances related to systems that have not been shipped to customers included in accounts receivable represent \$946,000, \$806,000 and \$2,198,000 at December 31, 1994 and 1995, and March 30, 1996, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Short-Term Investments

Short-term investments consist principally of debt instruments with maturities between three and twelve months and are carried at cost, which approximates market. These investments are variable rate and typically short-term in nature and therefore bear minimal risk.

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115). Under FAS 115, all affected debt and equity securities must be classified as held-to-maturity, trading, or available-for-sale. The cumulative effect as of January 1, 1994 of adopting FAS 115 was immaterial.

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. At December 31, 1994 and March 30, 1996, all debt securities were classified as held-to-maturity. The Company had the intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. The fair value of the short-term investments approximates their carrying value.

Cash and cash equivalents represent cash accounts, money market funds and variable rate municipal bonds purchased with original maturities of less than ninety days. At December 31, 1994 and March 30, 1996, short-term investments represent investments in variable rate municipal bonds. The fair market value of the short-term investments as of December 31, 1994 and March 30, 1996 was \$4,073,000 and \$2,543,000, respectively.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTH PERIODS ENDING APRIL 1, 1995 AND MARCH 30, 1996 IS UNAUDITED)

Inventories

Inventories for night vision products in 1994 are stated at the lower of weighted average cost or market. System and component inventories are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market. Inventories consist of the following:

	DECEMBER 31,		MARCH 30,
	1994	1995	1996
	(IN THOUSANDS)		
Raw materials.....	\$ 2,288	\$ 2,900	\$ 3,499
Work-in-progress.....	7,707	10,818	8,898
Finished goods.....	1,229	2,750	5,911
	-----	-----	-----
	\$11,224	\$16,468	\$18,308
	=====	=====	=====

Property, Plant, and Equipment

Property, plant and equipment is carried at cost less allowances for accumulated depreciation. Profits and losses on dispositions are reflected in current operations.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are generally five to seven years for machinery and equipment and ten years for buildings. Amortization of leasehold improvements is computed using the shorter of the remaining terms of the leases or the estimated economic useful lives of the improvements.

In 1995, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. SFAS 121 is effective for fiscal years beginning after December 15, 1995. Adoption of SFAS 121 has not had a material impact on the Company's financial position or results of operations.

Intangible Assets

In connection with the acquisition of various operating divisions from Varian, the Company entered into two separate non-compete covenants with Varian. In connection with these covenants, the final installment of \$305,000 was paid on February 15, 1994.

Goodwill of \$2,855,000 related to the Cathode acquisition is being amortized over seven years and \$200,000 assigned to a non-compete agreement will be amortized over five years. Accumulated amortization at March 30, 1996 was \$108,000 for these intangible assets.

Income Taxes

Effective January 1, 1993, the Company changed its method of accounting for income taxes to the liability method required by Statement of Financial Accounting Standards No. 109 (FAS 109). The Company adopted FAS 109 retroactively to the earliest year presented. Under FAS 109, deferred tax liabilities and assets are recognized based on temporary differences between the financial statement and tax bases of assets and liabilities using current statutory tax rates. FAS 109 also requires a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTH PERIODS ENDING APRIL 1, 1995 AND MARCH 30, 1996 IS UNAUDITED)

Net income per share

Net income per share is computed using the weighted average number of shares of common stock and common equivalent shares, when dilutive, from convertible preferred stock (using the as-if-converted method) and from stock options (using the treasury stock method). Pursuant to the Securities and Exchange Commission Staff Accounting Bulletins, common and common equivalent shares issued by the Company at prices below the initial public offering price during the twelve-month period prior to the offering have been included in the calculation, for periods prior to the initial public offering date, as if they were outstanding for all periods presented (using the treasury stock method at an assumed initial public offering price). Dividends paid to Series 1 preferred stockholders through the redemption of the Series 1 Preferred Stock in the third quarter of 1995 were \$25,000. The impact on net income per share and net income applicable to common stock is not material.

Reverse Stock Split

Effective October 3, 1995, there was a 2-for-3 reverse stock split of the Company's common stock and common stock equivalents with the corresponding adjustment of conversion rights related to the Company's Series A Preferred Stock. All share and per share amounts included in the accompanying financial statements and notes have been adjusted retroactively to reflect this reverse stock split.

Employee Stock Plans

The Company accounts for its stock option plans and its employee stock purchase plan in accordance with provisions of the Accounting Principles Board's Opinion No. 25 (APB 25), "Accounting For Stock Issued to Employees." In 1995, the Financial Accounting Standards Board released the Statement of Financial Accounting Standard No. 123 (SFAS 123), "Accounting for Stock Based Compensation." SFAS 123 provides an alternative to APB 25 and is effective for fiscal years beginning after December 15, 1995. The Company has elected to continue to account for its employee stock plans in accordance with the provisions of APB 25. Accordingly, SFAS 123 is not expected to have any material impact on the company's financial position or results of operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

3. CONCENTRATIONS

Credit Risk and Significant Customers

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash equivalents, short-term investments, and accounts receivable. The Company generally invests its excess cash in money market funds and in variable rate municipal bonds, which have contracted maturities within one year. By policy, the Company's investments in commercial paper, Certificates of Deposit (CD's), Eurodollar time deposits, or bankers acceptances are rated A1/P1, or better. Investments in tax exempt or tax advantaged instruments, such as variable rate

INTEVAC, INC.

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(INFORMATION RELATING TO THE THREE MONTH PERIODS ENDING APRIL 1, 1995 AND MARCH 30, 1996 IS UNAUDITED)

municipal bonds are rated A, AA, or better. To date, the Company has not incurred losses related to these investments.

The Company operates primarily in one business segment (subsequent to the discontinuance of the night vision business), which is to design, manufacture, and sell capital equipment used in high technology manufacturing and research activities. Historically, a significant portion of the Company's revenues in any particular period have been attributable to sales to a limited number of customers. The Company performs credit evaluations of its customers' financial conditions and requires deposits on system orders but does not generally require collateral or other security to support customer receivables. In 1993, three customers accounted for approximately 21%, 14%, and 11% of net revenues; in 1994, five customers accounted for 25%, 15%, 13%, 12%, and 10% of net revenues; in 1995, three customers accounted for 40%, 20%, and 17% of net revenues; for the three months ended April 1, 1995, three customers accounted for 44%, 13% and 10% of net revenues; and for the three months ended March 30, 1996, three customers accounted for 40%, 23% and 22% of net revenues. The Company's largest customers purchase disk-sputtering systems and change from period to period as thin-film disk fabrication facilities are built or expanded.

Products

Disk sputtering equipment contributed a significant portion of the Company's revenues and profits in 1995. The Company expects that its ability to maintain or expand its current levels of revenues and profits in the future will depend upon its success in enhancing its existing systems and developing and manufacturing, in a timely manner, the next generation of disk sputtering equipment.

Markets

The market for the Company's products is characterized by rapid technological developments, evolving industry standards, changes in customer requirements, new product introductions and enhancements. The market for disk sputtering systems is primarily dependent upon the decision of a prospective customer to replace obsolete equipment or to increase manufacturing capacity by upgrading or expanding existing manufacturing facilities or constructing new manufacturing facilities, all of which typically involve a significant capital commitment. In addition, the cyclicity of the disk drive industry, among other factors, may cause prospective customers to postpone decisions regarding major capital expenditures, including purchases of the Company's systems.

Materials

In certain instances, the Company is dependent upon a sole supplier or a limited number of suppliers, or has qualified only a single or limited number of suppliers, for certain complex components or sub-assemblies utilized in its products. In addition, the Company makes extensive use of suppliers serving the semiconductor equipment business and such suppliers may choose to give priority to their semiconductor equipment customers that are much larger than the Company. Any prolonged inability to obtain adequate deliveries could require the Company to pay more for inventory, parts and other supplies, seek alternative sources of supply, delay its ability to ship its products and damage relationships with current and prospective customers. Any such delay or damage could have a material adverse effect on the Company's business, financial condition and results of operations.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTH PERIODS ENDING APRIL 1, 1995 AND MARCH 30, 1996 IS UNAUDITED)

Inventories

Given the volatility of the market, the Company makes inventory provisions for potentially excess and obsolete inventory based on backlog and forecasted demand. However, such backlog demand is subject to revisions, cancellations, and rescheduling. Actual demand will inevitably differ from such anticipated demand, and such differences may have a material effect on the financial statements.

Competition

The Company experiences intense competition worldwide from three principal competitors, each of which has substantially greater financial, technical, marketing, manufacturing and other resources than the Company. There can be no assurance that the Company's competitors will not develop enhancements to, or future generations of, competitive products that will offer superior price or performance features or that new competitors will not enter the Company's markets and develop such enhanced products. Because of these competitive factors, there can be no assurance that the Company will be able to compete successfully in the future. Increased competitive pressure could cause the Company to lower prices for its products, thereby adversely affecting the Company's business, financial condition and results of operations.

Export Net Revenues

Export net revenues by geographic region were as follows (in thousands):

YEAR ENDED DECEMBER 31,	EUROPE	FAR EAST	TOTAL
1993.....	\$1,481	\$5,705	\$7,186
1994.....	13	8,231	8,244
1995.....	723	7,954	8,677

THREE MONTHS ENDED	EUROPE	FAR EAST	TOTAL
April 1, 1995.....	695	80	775
March 30, 1996.....	--	6,740	6,740

International sales are likely to continue to account for a substantial portion of net revenues in the future. Sales and operating activities outside of the United States are subject to certain inherent risks, including fluctuations in the value of the United States dollar relative to foreign currencies, tariffs, quotas, taxes and other market barriers, political and economic instability, restrictions on the export or import of technology, potentially limited intellectual property protection, difficulties in staffing and managing international operations and potentially adverse tax consequences. There can be no assurance that any of these factors will not have a material adverse effect on the Company's business, financial condition or results of operations. In particular, although the Company's international sales have been denominated in United States dollars, such sales and expenses may not be denominated in dollars in the future, and currency exchange fluctuations in countries where the Company does business could materially adversely affect the Company's business, financial condition and results of operations.

4. DISCONTINUED OPERATIONS

In the fourth quarter of 1992, the Company was notified by the U.S. Army that the night vision business had not been awarded the next phase of a significant production contract that was critical to

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTH PERIODS ENDING APRIL 1, 1995 AND MARCH 30, 1996 IS UNAUDITED)

the business. In 1993, as the majority of the existing U.S. Army contract was completed, the Company incurred a \$1,400,000 charge to operations for the downsizing of the night vision business, primarily related to noncash expenses for losses on idle fixed assets.

In the first quarter of 1995, the Company adopted a formal plan to discontinue the operations of its night vision business. Accordingly, the consolidated statements of operations and cash flows for all periods presented reflect the night vision operations as discontinued. In the second quarter of 1995, the Company sold its night vision business to Litton Systems, Inc. for cash of \$7,546,000. The terms of the sale of the night vision business required the Company to indemnify Litton Systems, Inc. for certain potential warranty and environmental claims. In connection with this sale, the Company recorded a net gain on disposal of \$2,254,000 (\$1,398,000 after tax, or \$0.13 per share) as follows:

Gain on sale, less applicable income taxes of \$1,007,000.....	\$1,645,000
Operating losses from April 1, 1995 to May 5, 1995, net of applicable benefit from income taxes of \$151,000.....	(247,000)
	\$1,398,000
	\$1,398,000

In connection with this sale, the Company reduced the gain by a charge of \$2,622,000 (\$1,626,000 after tax, or \$0.15 per share) for costs associated with the sale. The significant components of this charge included \$795,000 for warranty costs, \$680,000 for estimated environmental remediation costs associated with the site of the night vision operations, and \$476,000 for write-offs of certain prepaid expenses and other assets. The estimated environmental remediation costs associated with the site of the night vision operation was based upon a preliminary contractor bid for permits and removal of all toxic materials the Company is responsible for removing. Although management believes that the reserves established will cover any potential warranty and environmental remediation obligations the Company may have, with respect to the night vision operations and its occupancy of the Palo Alto site, there can be no assurance that such reserves will be adequate, or that there will not be a material impact in the near term on the financial statements presented.

Net revenues of the night vision business included in discontinued operations were \$37,545,000, \$18,356,000, and \$4,221,000 for the years ended December 31, 1993, 1994, and 1995 respectively. The income (loss) from discontinued operations were net of a provision (benefit) for income taxes of \$893,000, \$(163,000) and \$(39,000) for the years ended December 31, 1993, 1994, and 1995, respectively.

5. INVESTMENT IN 601 CALIFORNIA AVENUE LLC

In the third quarter of 1995, the Company entered into a Limited Liability Company Operating Agreement ("the Operating Agreement") which expires December 31, 2015 with 601 California Avenue LLC (the "LLC"), a California limited liability company formed and owned by the Company and certain shareholders of the Company. The LLC was formed for the purpose of removing the buildings, remediation and the development of an office building at the site of the Company's discontinued night vision business (the "Site"). Under the Operating Agreement, the Company transferred its leasehold interest in the Site in exchange for a preferred share in the LLC, having an aggregate liquidation preference equal to \$3,900,000, (unaudited), and the remaining shareholders of the LLC contributed cash of approximately \$1,053,000 (unaudited). The Company's preferred share votes with the common shares and has one vote out of 1,001, except for votes on the sale, transfer or lease of the Site, the LLC or changes to the rights of the preferred share as to which approval of the holder of the preferred share is required. The leasehold interest in the Site is with the Board of

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(INFORMATION RELATING TO THE THREE MONTH PERIODS ENDING APRIL 1, 1995 AND MARCH 30, 1996 IS UNAUDITED)

Trustees of the Leland Stanford Junior University. The leasehold interest is fully paid and expires in the year 2053. The fair market value of the leasehold interest in the Site was determined by an independent appraiser to be \$3,900,000 (unaudited). The Company is accounting for the investment under the cost recovery method and has recorded its investment in the LLC at approximately \$2,431,000, which represents the Company's historical carrying value of the leasehold interest in the Site which the Company believes is less than the net realizable value. The Company and the LLC will cross-indemnify each other for potential environmental claims relating to acts prior to and subsequent to the transfer of the Site, respectively. Per the Operating Agreement, the Company is not required to contribute additional capital to the LLC. The preferred share in the LLC accrues an annual 10% cumulative preferred return. The cumulative preferred return is not payable until the property is developed and generating positive operating cash flow, which among other factors, is dependent on the LLC obtaining additional financing, performing site environmental remediation for which Varian has made certain indemnifications, developing the Site, and negotiating a favorable lease(s). The Company has estimated its potential environmental remediation costs and has provided a reserve of \$680,000 for such estimated costs. This reserve is included in net liabilities of discontinued operations.

6. INVESTMENT IN CHORUS CORPORATION

In the fourth quarter of 1993, the Company sold its MBE operations and acquired 20% of the outstanding capital stock of Chorus, a manufacturer of MBE products, in a nonmonetary exchange whereby the Company agreed to deliver inventory and fixed assets, and Chorus agreed to assume MBE's vacation liability. In connection with this sale, the Company recorded a loss of approximately \$800,000, which is included in other income (expense), net. The investment is accounted for under the equity method. The net effect of the Company's share of Chorus' net income (loss) is included in other income (expense), net and was \$(20,000), \$(2,000) and \$165,000 for the years ended December 31, 1993, 1994 and 1995, respectively.

Certain MBE inventory, sufficient to fill MBE's backlog at October 1993, was not sold to Chorus. However, Chorus used this inventory to complete the backlog sales and reimbursed the Company for the cost of this inventory upon completion of the sale. A receivable of \$249,000 was recorded in the Company's financial statements at December 31, 1994 for the cost of such inventory. In addition, the Company retained the rights to sell certain other residual used systems of the MBE business that were not exchanged with Chorus. The sale of these used systems was completed during the first quarter of 1995.

In the third quarter of 1995, the Company sold its 20% investment interest in Chorus, which represented 1,250,000 shares of Chorus stock to an individual for \$500,000 in cash and a note for \$2,380,000. This note bears interest at 12.5% per year with principal and interest payable in installments through August 1997. The note is secured by 1,033,000 shares of Chorus stock. The sales price of the Chorus stock exceeded the net carrying value of the Company's investment in Chorus by approximately \$1,800,000. Due to the inherent uncertainties regarding the performance of an individual making the remaining installment payments on the note, the Company will defer the gain on the sale and recognize it under the cost recovery method. Under the cost-recovery method, no profit is recognized until cash payments by the individual buyer, including principal and interest on debt due to the Company, exceed the Company's net carrying value of its investment. The note receivable reserve of approximately \$1,773,000 at December 31, 1995 and at March 30, 1996 represents the deferred gain under the cost-recovery method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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7. LINE OF CREDIT

During 1993, the Company entered into a Business Loan Agreement with a bank, which was amended and restated in March 1996 and which provides for a total of \$10.0 million in available borrowings based on eligible receivables. The agreement is for a revolving line of credit, which is available until March 13, 1997, when the outstanding principal will be payable. Interest on outstanding amounts is due monthly. The line of credit bears interest, at the option of the Company, at the prime rate, or the London Interbank Offering Rate (LIBOR) plus two and one-half percent per annum. In the event of default, interest on the outstanding loan increases to 5.00% over the prime rate.

As of March 30, 1996, no amounts were outstanding under the agreement. The Company is required to maintain certain financial ratios and other financial conditions. Substantially all of the Company's assets are pledged as collateral on the borrowings.

8. COMMITMENTS AND CONTINGENCIES

Commitments

The Company leases certain facilities under noncancelable operating leases that expire in 1999. The facility leases require the Company to pay for all normal maintenance costs.

Future minimum rental payments under these leases at December 31, 1995 are as follows (in thousands):

1996.....	\$ 948
1997.....	911
1998.....	901
1999.....	467

	\$3,184
	=====

Gross rental expense was approximately \$1,420,000, \$1,212,000, \$675,000 and \$254,000 for the years ended December 31, 1993, 1994, and 1995 and for the three months ending March 30, 1996, respectively. Offsetting rental expense for the periods ending December 31, 1993, 1994 and 1995 was sublease income of \$837,000, \$739,000, and \$14,000, respectively. There was no sublease income for the three month period ending March 30, 1996.

Contingencies

In August 1993, Rockwell International Corporation ("Rockwell") sued the Federal government alleging infringement of certain patent rights with respect to the contracts the Federal government has had with a number of companies, including Intevac. The Federal government has notified the Company that it may be liable to the Federal government in connection with contracts for certain products from the Company's discontinued night vision business. There can be no assurance that the resolution of the claims by Rockwell with the Federal government will not have a material adverse effect on the Company's financial position, results of operations or cash flows. However, the Company believes that the ultimate resolution of this matter will not have a material adverse effect on its financial position, results of operations or cash flows.

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9. EMPLOYEE BENEFIT PLAN

In 1991, the Company 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. The Company made contributions of \$134,000, \$112,000 and \$49,000 for the years ended December 31, 1994 and 1995 and the three month period ending March 30, 1996, respectively, and made no contributions to the Plan for the year ended December 31, 1993. Administrative expenses relating to the plan are insignificant.

10. REDEEMABLE PREFERRED STOCK

On February 15, 1991, Intevac issued 610,000 shares of nonvoting redeemable Series 1 Preferred Stock to Varian. In 1995, the Company redeemed the shares of nonvoting redeemable Series 1 Preferred Stock held by Varian for \$6,100,000 and paid dividends of \$25,000 prior to the redemption.

11. SHAREHOLDERS' EQUITY

The Company's Articles of Incorporation authorizes 10,000,000 shares of Preferred Stock. The Board of Directors has the authority to issue the Preferred Stock in one or more series and to fix the price, rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the shareholders.

Convertible Preferred Stock

The Company previously had authorized 20,000,000 shares of preferred stock, no par value, of which 13,020,000 shares were designated, issued and outstanding as Series A preferred stock and 1,000,000 shares had been designated as Series B preferred stock. The Series B preferred stock had been authorized by the Board of Directors but was not filed with the state of California. In the third quarter of 1995, the Series A convertible preferred shareholders of the Company exchanged all of the outstanding shares of Series A convertible preferred stock of the Company for common stock and cash. Each share of preferred stock was exchanged for two-thirds of a share of common stock and a cash payment of \$0.76 which was based on a valuation from an independent appraiser. As a result of the exchange, 13,020,000 shares of convertible preferred stock were exchanged for 8,680,000 shares of common stock, and the Company's total cash payment was approximately \$9,895,000 to the Series A convertible preferred shareholders. The Series A and B preferred stock were convertible into two-thirds of a share of common stock, at the option of the holder, subject to certain antidilution adjustments.

Common Stock Dividend

In 1995, subsequent to the convertible preferred stock exchange described above, the Company paid a one time dividend of \$0.495 per outstanding share of common stock. The Company paid a cash dividend on 9,929,303 shares of approximately \$4,922,000 to the common shareholders. The Company has no plans to pay dividends in the future.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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Stock Option/Stock Issuance Plans

The Board of Directors approved the 1991 Stock Option/Stock Issuance Plan (the "1991 Plan") in 1991. The maximum number of shares that may be issued over the term of the 1991 Plan is 2,666,667 shares.

The 1991 Plan is divided into two separate components: the Option Grant Program and the Stock Issuance Program. Under the Option Grant Program, the Company may grant either incentive stock options or nonqualified options or implement stock appreciation rights provisions at the discretion of the Board of Directors. Exercisability, option price, and other terms are determined by the Board of Directors, but the option price shall not be less than 85% and 100% of the fair market value for nonqualified options and incentive stock options, respectively, as determined by the Board of Directors.

In 1995, the Board of Directors approved adoption of (i) the 1995 Stock Option/Stock Issuance Plan under which employees, nonemployee directors, and consultants may be granted stock options to purchase stock or issued shares of stock at not less than 85% of fair market value on the grant/issuance date; and (ii) the Employee Stock Purchase Plan, under which employees may purchase common stock at semiannual intervals at the lower of 85% of the fair market value of the common stock at the beginning or end of each offering period up to an aggregate total of 250,000 shares of the Company's common stock. The 1995 Stock Option/Stock Issuance Plan is intended to serve as the successor equity incentive program to the Company's 1991 Stock Option/Stock Issuance Plan. 1,882,013 shares of common stock have been authorized for issuance which is comprised of the shares which remain available for issuance under the 1991 Stock Option/Stock Issuance Plan, including the shares subject to outstanding options and an additional increase of approximately 515,000 shares.

Options under the Stock Option Plans are as follows:

	OPTIONS OUTSTANDING		
	NUMBER OF SHARES	AGGREGATE EXERCISE PRICE	PRICE PER SHARE
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Balance at December 31, 1992.....	749	\$ 144	\$0.15-0.75
Granted.....	75	96	\$1.28
Exercised.....	(47)	(14)	\$0.15-\$0.75
Canceled.....	(35)	(4)	\$0.15
	---	---	---
Balance at December 31, 1993.....	742	222	\$0.15-0.75
Granted.....	99	215	\$2.18
Exercised.....	(37)	(14)	\$0.15-\$0.75
Canceled.....	(7)	(5)	\$0.75
	---	---	---
Balance at December 31, 1994.....	797	419	\$0.15-2.18
Granted.....	708	3,738	\$2.18-\$7.50
Exercised.....	(557)	(174)	\$0.15-\$2.18
Canceled.....	(16)	(20)	\$1.28
	---	---	---
Balance at December 31, 1995.....	932	3,963	\$0.15-7.50
Exercised.....	(3)	(7)	\$2.18
	---	---	---
Balance at March 30, 1996.....	929	\$3,956	\$0.15-\$7.50
	===	===	

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Options granted under the 1991 Stock Option/Stock Issuance Plan are immediately exercisable, however, unexercised options and shares purchased upon the exercise of the options are subject to vesting over a five-year period. Shares that are not vested may be repurchased by the Company. Options to purchase 402,097, 572,454, 126,947 and 135,062 shares were vested at December 31, 1993, 1994 and 1995 and March 30, 1996, respectively. Shares of 88,127, 46,773, 50,667 and 49,212 were subject to repurchase at December 31, 1993, 1994 and 1995 and March 30, 1996, respectively.

12. RELATED PARTY TRANSACTIONS

Kaiser Aerospace & Electronics Corporation (Kaiser) is a related party resulting from their stock interest in the Company. Kaiser owns approximately 46% of the outstanding common stock at December 31, 1995 and at March 30, 1996. Varian was a related party until August 1995 when their non-voting preferred stock was redeemed.

The Company had system and product sales to Varian of \$1,664,000, \$2,491,000, \$1,844,000 and \$541,000 for the years ended December 31, 1993, 1994, and 1995 and for the three months ended April 30, 1995, respectively. The Company paid rent to Varian of approximately \$1,352,000, and \$1,056,000 during the years ended December 31, 1993 and 1994, respectively. At December 31, 1995, \$199,000 was due from Varian. The Company has been a subcontractor to Kaiser on certain government contracts and recognized revenues of approximately \$105,000, \$406,000, and \$12,000 for the years ended December 31, 1993, 1994 and 1995, respectively. Gross margins on these contracts for the years ended December 31, 1993, 1994 and 1995 were insignificant. In 1995, final settlement was reached on a cost-type contract, which resulted in the Company receiving \$12,000 from Kaiser. The Company has not been a subcontractor to Kaiser in the three months ended March 30, 1996.

Gross margins realized on related party transactions have not been materially different from the gross margins realized on similar types of transactions with unaffiliated customers. Management believes rent paid to Varian was made on terms comparable to what the Company could have obtained from an unaffiliated third party.

13. INCOME TAXES

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 used for income tax

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purposes. Significant components of the Company's deferred tax assets computed in accordance with FAS 109 are as follows (in thousands):

	DECEMBER 31,	
	1994	1995
Deferred tax assets:		
Discontinued operations reserve.....	\$ --	\$ 809
Idle equipment reserve.....	237	--
Vacation accrual.....	388	264
Warranty reserve.....	510	454
Deferred investment gain.....	10	202
Bad debt reserve.....	45	235
Inventory valuation.....	1,606	1,051
Other accruals and reserves not previously deducted for tax purposes.....	197	322
Book depreciation in excess of tax depreciation.....	375	173
Other.....	330	188
	-----	-----
	3,698	3,698
Valuation allowance for deferred tax assets.....	(862)	(462)
	-----	-----
Total deferred tax assets.....	\$2,836	\$3,236
	=====	=====

The valuation allowances of \$0.9 million and \$0.5 million at December 31, 1994 and 1995, respectively, relate to certain future state income tax deductions. The total valuation allowance for the year ended December 31, 1994 increased by \$245,000 from December 31, 1993.

The provision (benefit) for income taxes attributable to continuing operations consists of the following (in thousands):

	YEARS ENDED DECEMBER 31,		
	1993	1994	1995
Federal:			
Current.....	\$ (780)	\$ 76	\$2,853
Deferred.....	705	633	(109)
	-----	-----	-----
	(75)	709	2,744
State:			
Current.....	--	--	99
Deferred.....	--	117	336
	-----	-----	-----
	--	117	435
	-----	-----	-----
Total.....	\$ (75)	\$826	\$3,179
	=====	=====	=====

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTH PERIODS ENDING APRIL 1, 1995 AND MARCH 30, 1996 IS UNAUDITED)

A reconciliation of the income tax provision (benefit) at the federal statutory rate of 34% in 1993 and 1994 and 35% in 1995 to the income tax provision at the effective tax rate is as follows (in thousands):

	YEARS ENDED DECEMBER 31,		
	1993	1994	1995
	-----	-----	-----
Income taxes (benefit) computed at the federal statutory rate.....	\$ (3)	\$ 850	\$3,130
State taxes (net of federal benefit).....	--	90	283
Tax exempt income.....	(9)	(125)	(92)
Research credit.....	(90)	(51)	--
Other.....	27	62	(142)
	-----	-----	-----
Total.....	\$ (75)	\$ 826	\$3,179
	=====	=====	=====

The Company's effective tax rates for the years ended December 31, 1993, 1994 and 1995 were 834.0%, 33.0% and 35.5%, respectively. The effective tax rates used for the three month periods ending April 1, 1995 and March 30, 1996 were 36.0% and 35.0%, respectively. This rate is based on the estimated annual tax rate complying with Financial Standards No. 109, "Accounting for Income Taxes".

Pretax income (loss) from foreign operations was \$(29,000), \$40,000 and \$7,000 for the years ended December 31, 1993, 1994, and 1995, respectively. Unrepatriated foreign earnings for which taxes have not been provided are immaterial.

14. RESEARCH AND DEVELOPMENT COST SHARING AGREEMENT

The Company entered into an agreement with a Japanese company to perform best efforts joint research and development work. The nature of the project is to develop a glass coating machine to be used in the production of flat panel displays. The Company was funded one-half of the actual costs of the project up to a ceiling of \$4,250,000, payable in three installments. Subsequent to December 31, 1995, the Company amended the agreement to increase the funding ceiling to \$5,450,000. At March 30, 1996, the Company had received \$4,250,000 under the contract. Qualifying costs of approximately \$1,826,000, \$3,994,000, \$1,958,000 and \$784,000 for the years ended December 31, 1993, 1994, 1995, and the three months ended March 30, 1996, respectively, were incurred on this project, resulting in offsets against research and development costs of approximately \$913,000, \$1,997,000, \$1,130,000 and \$392,000 in 1993, 1994, 1995, and the three months ended March 30, 1996, respectively.

Upon completion of the research and development work, if successful, each party will receive certain manufacturing and marketing rights for separate regions of the world. The agreement also calls for certain royalty payments by each party to the other party, based on production and sales. The royalty rate will be 10% for each party until the party has received royalty payments equal to one-half of the amount spent on the development program, at which time the royalty rate decreases to 5%. Subsequent to December 31, 1995 the parties amended the agreement to make the royalty rate 5% for all sales.

15. SUBSEQUENT EVENTS

On May 3, 1996, the Company completed the acquisition of San Jose Technology Corporation ("SJT") for approximately \$3.7 million in cash. SJT is a supplier of systems used to lubricate thin-film disks for computer hard disk drives. On June 6, 1996 the Company completed the acquisition of Lotus Technologies, Inc. ("Lotus") for approximately \$8.3 million in cash. Lotus is a supplier of contact stop/start test equipment for computer hard disk drives and components. In connection with the

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(INFORMATION RELATING TO THE THREE MONTH PERIODS ENDING APRIL 1, 1995 AND MARCH 30, 1996 IS UNAUDITED)

acquisitions, the Company expects to take a charge of approximately \$5.8 million for in-process research and development in the three months ended June 29, 1996.

The purchase price was allocated to tangible and intangible assets of Lotus and SJT based on the fair values of those assets using a risk adjusted discounted cash flow approach. The valuation of in-process research and development considered, among other factors, the stage of development of each project, the time and resources needed to complete each project, expected income and associated risks. Associated risks include the inherent difficulties and uncertainties in completing each project and thereby achieving technological feasibility, and risks related to the viability of potential changes in future target markets. The in-process research and development did not have alternative future uses. The purchase price allocations are based on preliminary appraisals received by Intevac, and will be finalized upon the closings to reflect the final balance sheets of Lotus and SJT.

**INTEVAC, INC., SAN JOSE TECHNOLOGY CORPORATION AND
LOTUS TECHNOLOGIES, INC.**

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On May 3, 1996, Intevac, Inc. ("Intevac" or the "Company") completed the acquisition of San Jose Technology Corporation ("SJT") for approximately \$3.7 million in cash. SJT is a supplier of systems used to lubricate thin-film disks for computer hard disk drives.

On June 6, 1996 the Company completed the acquisition of Lotus Technologies, Inc. ("Lotus") for approximately \$8.3 million in cash. Lotus is a supplier of contact stop/start test equipment for computer hard drives and components.

The following pro forma condensed combined financial statements give effect to the acquisition of SJT and Lotus under the purchase method of accounting at the date and for the periods shown. Under the purchase method of accounting, the amount relating to acquired in-process research and development will be charged to operations as of the purchase date. The purchase price allocations are based on preliminary appraisals received by Intevac, and will be finalized upon the closings to reflect the final balance sheets of Lotus and SJT. The Company presently expects to record a charge of approximately \$5.8 million relating to the acquisition of in-process technology in the quarter ending June 29, 1996.

The pro forma condensed combined balance sheet assumes the acquisitions occurred as of March 31, 1996 for SJT and April 30, 1996 for Lotus (the dates of the balance sheet) and presents the combined financial position of Intevac, SJT and Lotus. Such unaudited pro forma information is based on the historical balance sheets for Intevac, SJT and Lotus and gives effect for the pro forma adjustments described in the notes accompanying the pro forma condensed combined financial statements. The charge relating to the acquisition of in-process technology described above is included in the pro forma condensed combined balance sheet as a charge to retained earnings.

The pro forma condensed combined statements of operations presents the combined year and three months results of Intevac, SJT and Lotus and, assumes the SJT acquisition took place on January 1, 1995 and January 1, 1996 and the Lotus acquisition took place on February 1, 1995 and February 1, 1996. Such unaudited pro forma information is based on the historical statements of operations for Intevac, SJT and Lotus and give effect for the pro forma adjustments described in the notes accompanying the pro forma condensed combined financial statements. The charge relating to the acquisition of in-process technology described above is excluded from the pro forma statements of operations as it represents a nonrecurring item directly related to the transactions. The pro forma condensed combined statement of operations for the year ended December 31, 1995 combines the historical statement of operations for Intevac for the year ended December 31, 1995 with the historical statement of operations for SJT for the twelve months ended December 31, 1995 and the historical statement of operations for Lotus for the fiscal year ended January 31, 1996. The pro forma condensed combined statement of operations for the three months ended March 30, 1996 combines the historical statement of operations information for Intevac for the three months ended March 30, 1996 with the historical statement of operations for SJT for the three months ended March 31, 1996 and the historical statement of operations for Lotus for the three months ended April 30, 1996.

These pro forma statements may not be indicative of the results that actually would have occurred if the combinations had been in effect on the dates indicated or which may be realized in the future.

UNAUDITED PRO FORMA COMBINED CONDENSED

**BALANCE SHEET
(IN THOUSANDS)**

	MARCH 30, 1996	MARCH 31, 1996	APRIL 30, 1996	PRO FORMA ADJUSTMENTS INCREASE (DECREASE)	PRO FORMA COMBINED
	----- INTEVAC -----	----- SJT -----	----- LOTUS -----	----- (DECREASE) -----	----- COMBINED -----
ASSETS					
Current assets.....	\$48,507	\$ 2,318	\$ 867	\$(3,715) (A) (8,335) (C) 278 (B)	\$39,920
Property and equipment, net.....	4,637	144	26	19 (B)	4,826
Other assets.....	5,460	1	7	100 (B) 785 (B) 136 (D) 1,016 (D) 4,995 (B) (D)	12,500
	----- \$58,604 =====	----- \$ 2,463 =====	----- \$ 900 =====	----- \$(4,721) =====	----- \$57,246 =====
LIABILITIES AND SHAREHOLDERS'					
EQUITY					
Current liabilities.....	\$28,656	\$ 1,595	\$ 783	\$ 2,099 (B) (D)	\$33,133
Long term debt.....	730	--	--	--	730
Shareholders' equity					
Common stock.....	15,305	95	54	(149) (J)	15,305
Retained earnings.....	13,913	773	63	(836) (J) (5,835) (B) (D) (K)	8,078
	-----	-----	-----	-----	-----
Total shareholders' equity.....	29,218	868	117	(6,820)	23,383
	----- \$58,604 =====	----- \$ 2,463 =====	----- \$ 900 =====	----- \$(4,721) =====	----- \$57,246 =====

**UNAUDITED PRO FORMA COMBINED CONDENSED
STATEMENT OF OPERATIONS**
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31, 1995		YEAR ENDED JANUARY 31, 1996	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
	INTEVAC	SJT	LOTUS		
Net revenues.....	\$42,882	\$2,273	\$3,135	\$ --	\$48,290
Cost of sales.....	27,714	1,152	1,836	2,063 (E) (F) (G) (H)	32,765
Gross profit.....	15,168	1,121	1,299	(2,063)	15,525
Operating expenses:					
Selling general and administrative.....	4,550	508	417	--	5,475
Research and development.....	2,603	1	923	--	3,527
Amortization of acquired intangibles.....	--	--	--	65 (E) (F)	65
Total operating expenses.....	7,153	509	1,340	65	9,067
Operating income (loss).....	8,015	612	(41)	(2,128)	6,458
Other income (expense)..	929	8	8	(603) (I)	342
Income (loss) from continuing operations before tax.....	8,944	620	(33)	(2,731)	6,800
Provision (benefit) for income taxes.....	3,179	279	--	(1,078) (L)	2,380
Income (loss) from continuing operations.....	5,765	341	(33)	(1,653)	4,420
Income (loss) from discontinued operations.....	1,335	--	--	--	1,335
Net income (loss).....	\$ 7,100	\$ 341	\$ (33)	\$ (1,653)	\$ 5,755
Per share:					
Income (loss) from continuing operations.....	\$ 0.54	\$ 3.59	\$(0.01)		\$ 0.42
Net income (loss).....	\$ 0.67	\$ 3.59	\$(0.01)		\$ 0.54
Shares used in computing net income per share.....	10,606	95	3,780		10,606

**UNAUDITED PRO FORMA COMBINED CONDENSED
STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)**

	THREE MONTHS ENDED			PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
	MARCH 30, 1996	MARCH 31, 1996	APRIL 30, 1996		
	INTEVAC	SJT	LOTUS		
Net revenues.....	\$ 15,126	\$1,158	\$1,312	\$ --	\$17,596
Cost of sales.....	9,203	510	800	516 (E) (F) (G) (H)	11,029
Gross profit.....	5,923	648	512	(516)	6,567
Operating expenses:					
Selling general and administrative...	1,887	92	101	--	2,080
Research and development...	1,379	--	189	--	1,568
Amortization of acquired intangibles...	--	--	--	16 (E) (F)	16
Total operating expenses...	3,266	92	290	16	3,664
Operating income...	2,657	556	222	(532)	2,903
Other income (expense).....	261	15	4	(150) (I)	130
Income (loss) from continuing operations before tax.....	2,918	571	226	(682)	3,033
Provision (benefit) for income taxes.....	1,021	249	55	(263) (L)	1,062
Income (loss) from continuing operations.....	1,897	322	171	(419)	1,971
Income (loss) from discontinued operations.....	--	--	--	--	--
Net income.....	\$ 1,897	\$ 322	\$ 171	\$ (419)	\$ 1,971
	=====	=====	=====	=====	=====
Per share:					
Income from continuing operations....	\$ 0.15	\$ 3.39	\$ 0.05		\$ 0.16
Net income.....	\$ 0.15	\$ 3.39	\$ 0.05		\$ 0.16
	=====	=====	=====		=====
Shares used in computing net income per share.....	12,631	95	3,780		12,631
	=====	=====	=====		=====

INTEVAC, INC.

**NOTES TO UNAUDITED PRO FORMA
CONDENSED COMBINED FINANCIAL STATEMENTS**

1. BASIS OF PRESENTATION

The pro forma information presented is theoretical in nature and not necessarily indicative of the future consolidated results of operations of the Company or the consolidated results of operations which would have resulted had the Company purchased SJT and Lotus during the periods presented. The pro forma condensed consolidated financial statements reflect the effects of the acquisitions, assuming the acquisition and related events occurred as of March 30, 1996 for the purposes of the pro forma condensed combined balance sheet and as of January 1, 1995 and January 1, 1996 for the purposes of the pro forma condensed combined statements of operations.

2. PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENT ADJUSTMENTS:

(A)	The purchase price for the completion of the SJT acquisition was determined as follows (in thousands):	
	Cash.....	\$ 3,700
	Estimated transaction costs.....	15

		\$ 3,715
		=====
(B)	Allocation of the purchase price for the completion of the SJT acquisition was determined as follows (in thousands):	
	Current assets at March 31, 1996.....	\$ 2,318
	Property and equipment at March 31, 1996.....	144
	Other assets at March 31, 1996.....	1
	Current asset purchase price adjustment.....	278
	Fixed asset purchase price adjustment.....	19
	Non-compete covenant.....	100
	Current technology intangible.....	785
	Goodwill.....	375
	Assumption of SJT current and other liabilities at March 31, 1996....	(1,595)
	Current liability purchase price adjustment.....	(75)
	Deferred taxes.....	(375)
	Acquired in-process research and development.....	1,740

		\$ 3,715
		=====
(C)	The purchase price for the completion of the Lotus acquisition was determined as follows (in thousands):	
	Cash.....	\$ 8,320
	Estimated transaction costs.....	15

		\$ 8,335
		=====

INTEVAC, INC.

**NOTES TO UNAUDITED PRO FORMA
CONDENSED COMBINED FINANCIAL STATEMENTS -- (CONTINUED)**

- (D) Allocation of the purchase price for the completion of the Lotus acquisition was determined as follows (in thousands):
- | | | |
|--|----|----------|
| Current assets at April 30, 1996..... | \$ | 867 |
| Property and equipment at April 30, 1996..... | | 26 |
| Other assets at April 30, 1996..... | | 7 |
| Non-compete covenant..... | | 136 |
| Current technology intangible..... | | 1,016 |
| Goodwill..... | | 4,620 |
| Assumption of Lotus current liabilities at March 31, 1996..... | | (783) |
| Deferred taxes..... | | (1,649) |
| Acquired in-process research and development..... | | 4,095 |
| | | ----- |
| | | \$ 8,335 |
| | | ===== |
- (E) Amortization of the non-compete covenant and the current technology intangible for SJT will be amortized over the estimated useful lives of five years and two years, respectively. The amortization of the non-compete covenant will be included in operating expenses and amortization of the current technology intangible will be included in cost of sales.
- (F) Amortization of the non-compete covenant, the current technology intangible and excess purchase price of \$2,971,000 (goodwill) for Lotus will be amortized over the estimated useful lives of three years, three years and five years, respectively. The amortization of the non-compete covenant will be included in operating expenses and amortization of current technology and goodwill will be included in cost of sales.
- (G) Goodwill created by the deferred tax liability on the SJT acquisition will be amortized over two years. The amortization of goodwill will be included in cost of sales.
- (H) Goodwill created by the deferred tax liability on the Lotus acquisition will be amortized over three years. The amortization of goodwill will be included in cost of sales.
- (I) To reduce interest income earned on the cash payments made to San Jose Technology and to Lotus for the purchase price and related acquisition costs.
- (J) Elimination of SJT and Lotus stockholders' equity amounts.
- (K) The pro forma statement of operations exclude the charge of \$5.8 million for purchased in-process research and development which arose from the acquisition. These charges will be included in the Company's consolidated financial statements for the three month period ending June 29, 1996. The purchase price for each acquisition was allocated to the tangible and intangible assets of SJT and Lotus based on the fair market values of those assets using a risk adjusted discounted cash flows approach. The evaluation of the underlying technology acquired considered the inherent difficulties and uncertainties in completing the development, and thereby achieving technological feasibility, and the risks related to the viability of and potential changes in future target markets. The underlying technology had no alternative uses in other research and development projects or otherwise.

INTEVAC, INC.

**NOTES TO UNAUDITED PRO FORMA
CONDENSED COMBINED FINANCIAL STATEMENTS -- (CONTINUED)**

- (L) The pro forma provision for income taxes represents the hypothetical amount that would have resulted had the Company, SJT and Lotus filed consolidated income tax returns during the period presented. The Company will not receive any tax benefits for either the amounts expensed as in-process technology or the expenses related to the amortization of acquired intangible assets.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Lotus Technologies, Inc.

We have audited the accompanying balance sheet of Lotus Technologies, Inc. as of January 31, 1996, and the related statements of operations, shareholders' equity (deficit), and cash flows for the year then ended. 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 generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of Lotus Technologies, Inc. at January 31, 1996, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

San Jose, California
March 28, 1996, except for
Note 4, as to which the date
is June 5, 1996

LOTUS TECHNOLOGIES, INC.

BALANCE SHEETS

	JANUARY 31, 1996 -----	APRIL 30, 1996 ----- (UNAUDITED) -----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 601,712	\$ 257,352
Accounts receivable.....	130,078	350,045
Inventories.....	356,137	259,550
	-----	-----
Total current assets.....	1,087,927	866,947
Equipment and leasehold improvements:		
Machinery and equipment.....	49,485	58,085
Furniture and fixtures.....	2,561	2,561
Leasehold improvements.....	455	455
	-----	-----
Accumulated depreciation and amortization.....	52,501 (33,447)	61,101 (34,860)
	-----	-----
Other assets.....	19,054 7,162	26,241 7,162
	-----	-----
Total assets.....	\$ 1,114,143 =====	\$ 900,350 =====
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable.....	\$ 209,112	\$ 265,231
Accrued bonuses.....	675,000	350,000
Income taxes payable.....	--	55,000
Customer deposits.....	234,744	53,519
Other accrued liabilities.....	48,821	58,883
	-----	-----
Total current liabilities.....	1,167,677	782,633
Shareholders' equity (deficit):		
Common stock, no par value:		
Authorized shares -- 10,000,000		
Issued and outstanding shares -- 3,780,000 at January 31, 1996 and April 30, 1996 (unaudited).....	54,200	54,200
Retained earnings (deficit).....	(107,734)	63,517
	-----	-----
Total shareholders' equity (deficit).....	(53,534)	117,717
	-----	-----
Total liabilities and shareholders' equity (deficit).....	\$ 1,114,143 =====	\$ 900,350 =====

See accompanying notes.

LOTUS TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS

	YEAR ENDED	THREE MONTHS ENDED	
	JANUARY 31,	APRIL 30,	APRIL 30,
	1996	1995	1996
	-----	-----	-----
		(UNAUDITED)	
Revenues.....	\$ 3,135,152	\$ 567,733	\$1,311,547
Cost of revenues.....	1,835,965	294,123	799,543
	-----	-----	-----
Gross profit.....	1,299,187	273,610	512,004
Operating expenses:			
Research and development.....	923,260	123,920	188,675
Marketing and selling.....	253,951	16,727	58,357
General and administrative.....	162,770	102,847	42,856
	-----	-----	-----
Total operating expenses.....	1,339,981	243,494	289,888
	-----	-----	-----
Income (loss) from operations.....	(40,794)	30,116	222,116
Interest income.....	8,129	--	4,135
	-----	-----	-----
Income (loss) before provision for income taxes.....	(32,665)	30,116	226,251
Provision for income taxes.....	--	--	55,000
	-----	-----	-----
Net income (loss).....	\$ (32,665)	\$ 30,116	\$ 171,251
	=====	=====	=====
Net income (loss) per share.....	\$ (0.01)	\$ 0.01	\$ 0.05
	=====	=====	=====
Common shares used in computing per share amounts....	3,780,000	3,780,000	3,780,000
	=====	=====	=====

See accompanying notes.

LOTUS TECHNOLOGIES, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

	COMMON STOCK		RETAINED	TOTAL
	SHARES	AMOUNT	EARNINGS	SHAREHOLDERS'
			(DEFICIT)	EQUITY
				(DEFICIT)
Balance at January 31, 1995.....	3,780,000	\$54,200	\$ (75,069)	\$ (20,869)
Net loss.....	--	--	(32,665)	(32,665)
Balance at January 31, 1996.....	3,780,000	54,200	(107,734)	(53,534)
Net income (unaudited).....	--	--	171,251	171,251
Balance at April 30, 1996 (unaudited).....	3,780,000	\$54,200	\$ 63,517	\$ 117,717
	=====	=====	=====	=====

See accompanying notes.

LOTUS TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS

	YEAR ENDED	THREE MONTHS ENDED	
	JANUARY	APRIL 30,	APRIL 30,
	31,	1995	1996
	1996	-----	-----
	-----	(UNAUDITED)	
OPERATING ACTIVITIES			
Net income (loss).....	\$ (32,665)	\$ 30,116	\$ 171,251
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	2,339	584	1,413
Changes in operating assets and liabilities:			
Accounts receivable.....	86,861	44,748	(219,967)
Inventories.....	(193,719)	(69,907)	96,587
Accounts payable.....	156,557	69,207	56,119
Accrued bonuses.....	257,000	(249,000)	(325,000)
Income taxes payable.....	--	--	55,000
Customer deposits.....	61,355	60,216	(181,225)
Other accrued liabilities.....	12,856	(23,950)	10,062
	-----	-----	-----
Net cash provided by (used in) operating activities.....	350,584	(137,986)	(335,760)
INVESTING ACTIVITIES			
Purchases of equipment and leasehold improvements.....	(20,614)	--	(8,600)
Other assets.....	15,780	--	--
	-----	-----	-----
Net cash used in investing activities.....	(4,834)	--	(8,600)
	-----	-----	-----
Increase (decrease) in cash and cash equivalents.....	345,750	(137,986)	(344,360)
Cash and cash equivalents at beginning of period.....	255,962	255,962	601,712
	-----	-----	-----
Cash and cash equivalents at end of period.....	\$ 601,712	\$ 117,976	\$ 257,352
	=====	=====	=====

See accompanying notes.

LOTUS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

(INFORMATION AS OF APRIL 30, 1996 AND FOR THE THREE MONTHS ENDED
APRIL 30, 1995 AND 1996 IS UNAUDITED)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Lotus Technologies, Inc. (the "Company") was incorporated in the state of California in March 1988. The Company is a supplier of contact stop/start test equipment for computer hard disk drives and components. The Company's customers are located mainly in the United States and the Pacific Rim. The Company currently utilizes a single Japanese distributor, sales to which accounted for approximately 25% of revenue in the fiscal year ended January 31, 1996, and approximately 10% of revenue for the three month period ended April 30, 1996.

INTERIM FINANCIAL INFORMATION

The financial statements and related notes as of April 30, 1996 and for the three months ended April 30, 1995 and 1996 are unaudited and have been prepared on the same basis as the audited financial statements. The unaudited financial statements include all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the interim periods.

The results of operations for the three months ended April 30, 1996 are not necessarily indicative of results to be expected for the full fiscal year.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during the reporting period. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity from the date of purchase of three months or less to be cash equivalents. The Company maintains deposits with banks and had invested excess cash in a money market account at January 31, 1996 and April 30, 1996. The Company has not experienced any losses on its investments.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out basis) or market. The major components of inventories are as follows:

	JANUARY 31, 1996	APRIL 30, 1996
	-----	-----
		(UNAUDITED)
Raw materials.....	\$ 159,215	\$ 116,019
Work-in-process.....	186,408	135,745
Finished goods.....	10,514	7,786
	-----	-----
	\$ 356,137	\$ 259,550
	=====	=====

LOTUS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

(INFORMATION AS OF APRIL 30, 1996 AND FOR THE THREE MONTHS ENDED
APRIL 30, 1995 AND 1996 IS UNAUDITED)

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which are generally three to five years.

LONG-LIVED ASSETS

On February 1, 1996 the Company was required to adopt Financial Accounting Standards Board Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (FAS 121). FAS 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. The adoption of FAS 121 did not have a material impact on the Company's financial position or results of operations.

REVENUE RECOGNITION

Revenue from product sales is recognized upon shipment. Cash received from customers prior to shipment is recorded as customer deposits until shipment occurs and revenue is recognized. Revenue from the sales of extended warranty contracts, which totaled \$14,250 in the year ended January 31, 1996 and \$1,000 and \$7,500 in the three months ended April 30, 1995 and 1996, respectively, is recognized ratably over the period services are provided, generally twelve months.

CONCENTRATION OF CREDIT RISK

Financial instruments that subject the Company to credit risk consist principally of trade receivables. The majority of the Company's product sales are to large, well-established disk drive manufacturers, and generally, no collateral is required. The Company's typical credit terms require a one-third down payment subject to a 25% cancellation fee and the balance due within 30 days of shipment. Credit risk with respect to trade receivables is limited by the Company's credit evaluation process and reasonably short collection terms.

For the year ended January 31, 1996, four customers accounted for 26%, 25%, 13%, and 13% of revenues.

For the three months ended April 30, 1996, three customers accounted for 36%, 17%, and 10% of revenues.

NET INCOME (LOSS) PER SHARE

Net income (loss) per share is based upon the weighted average number of common shares outstanding during the periods presented.

2. COMMITMENTS

The Company currently leases its facility under a noncancelable operating lease that expires in December 1996. Future minimum lease payments under this agreement are approximately \$35,000 as of April 30, 1996.

Rent expense under this operating lease was approximately \$49,000, \$9,000 and \$13,000 for the year ended January 31, 1996 and the three months ended April 30, 1995 and 1996, respectively.

LOTUS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

(INFORMATION AS OF APRIL 30, 1996 AND FOR THE THREE MONTHS ENDED
APRIL 30, 1995 AND 1996 IS UNAUDITED)

3. INCOME TAXES

Income taxes are calculated under the liability method in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes".

There was no provision for income taxes for the year ended January 31, 1996. For the three month periods ended April 30, 1995 and 1996, income taxes have been provided based on the estimated annual effective rate applied to pretax income for the interim periods.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities used for financial reporting and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets as of January 31, 1996 are as follows:

Deferred tax assets:	
Research credits.....	\$ 69,000
Inventory reserve.....	17,000
Other.....	24,000

Total deferred tax assets.....	110,000
Valuation allowance for deferred tax assets.....	(110,000)

Net deferred tax assets.....	\$ --

The realization and amount of any tax benefit from the deferred tax asset of \$110,000 is dependent upon the generation of future taxable income and the tax rate in effect in such years. Accordingly, due to the uncertainty of realizing future taxable income, a valuation allowance has been established. The change in the valuation allowance was a net increase of \$60,000 for the year ended January 31, 1996.

For federal tax purposes, the Company has research and development credit carryforwards of approximately \$50,000, which will expire in the years 2009 through 2011. For California tax purposes, the Company has research and development credit carryforwards of approximately \$19,000, which will expire in the years 2010 and 2011.

4. SUBSEQUENT EVENTS

In May 1996, the Company signed a letter of intent to be acquired by Intevac, Inc. (Intevac), a leading supplier of static sputtering systems used to manufacture thin-film disks for computer hard disk drives. Under the terms of the proposed purchase agreement, which is expected to be consummated in June 1996, the shareholders of the Company will receive approximately \$8.3 million in cash in exchange for all of their common stock.

APPENDIX -- DESCRIPTION OF GRAPHIC IMAGES

INSIDE FRONT COVER

Intevac is a leading supplier of static sputtering systems used to manufacture thin-film disks for computer hard disk drives.

CENTER OF PAGE PHOTO

Photograph of thin-film disks.

Photograph of MDP-250B disk sputtering system.

Caption: The MDP-250B is fully automated, has 12 independent process stations and achieves throughput of approximately 450 disks per hour.

P. 35:

A depiction of the layering of the thin films on a disk substrate.

P. 38:

An illustration of a typical in-line thin-film disk sputtering system.

P. 40:

An illustration of Intevac's MDP-250B disk sputtering system.

P. 43:

A diagram depicting the process of sputtering a thin-film layer on a disk.

P. 44:

A depiction of the transport mechanism designed into Intevac's MDP-250B disk sputtering system.

INSIDE BACK COVER

UPPER LEFT PHOTO

Photograph of CM-Gun sputtering source.

Caption: The "CM-Gun" magnetron sputtering source uses an electromagnet to provide the necessary magnetic field.

LOWER LEFT PHOTO

Photograph of cooling-station.

Caption: The gas conduction cooling station is typically used to lower disk temperature prior to sputtering the carbon top coat.

CENTER PHOTO

Photograph of infrared substrate heater.

Caption: The infrared substrate heater.

UPPER RIGHT PHOTO

Photograph of thin-film disk on pedestal.

Caption: Disks are transported on pedestals which are located on the rim of the disk transfer wheel.

LOWER RIGHT PHOTO

Photograph of a cassette of thin-film disks entering the sputtering system.

Caption: Cassettes containing 25 disks automatically travel through the system. Each disk moves separately through up to 12 process steps.

OUTSIDE BACK COVER

Photograph of disk cassette inside sputtering machine.

Intevac logo.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by the Company in connection with the sale of Common Stock being registered. All amounts are estimates except the SEC registration fee the NASD filing fees and the Nasdaq listing fee.

SEC Registration fee.....	\$ 17,511
NASD fee.....	5,578
Nasdaq National Market listing fee.....	17,500
Printing and engraving.....	75,000
Legal fees and expenses of the Company.....	100,000
Accounting fees and expenses.....	90,000
Blue sky fees and expenses.....	10,000
Transfer agent fees.....	10,000
Miscellaneous.....	24,411

Total.....	\$350,000
	=====

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 317 of the California Corporations Code authorizes a corporation's Board of Directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the "Act"). Article IV of the Amended and Restated Articles of Incorporation of the Registrant (Exhibit 3.1) and Article VI of the Company's Bylaws (Exhibit 3.2) provide for indemnification of the Company's directors, officers and other agents to the maximum extent permitted by the California Corporations Code. Pursuant to the foregoing, the Company will, prior to effectiveness of this Registration Statement, enter into an Indemnification Agreement with each of its directors, officers and certain controlling persons (Exhibit 10.4). The Underwriting Agreement (Exhibit 1.1) provides for indemnification by the Underwriters of the Registrant, its directors and executive officers and other persons for certain liabilities arising under the Act.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

(1) Since January 1, 1992, the Registrant has issued and sold 1,265,950 shares (net of repurchases) of its Common Stock to employees pursuant to exercises of options under its 1991 Stock Option/Stock Issuance Plan (Exhibit 10.1).

(2) In August 1995, the Registrant exchanged with the holders of the Registrant's Preferred Stock two-thirds of a share of Common Stock and \$0.76 for each outstanding share of Preferred Stock.

The issuances described in Item 15(1) above were deemed exempt from registration under the Securities Act in reliance upon Rule 701 promulgated thereunder in that they were offered and sold either pursuant to written compensatory benefit plans or pursuant to a written contract relating to compensation, as provided by Rule 701.

The exchange and issuances described in Item 15(2) above were deemed to be exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering. The recipients of securities in each such transaction represented their intentions to acquire the securities for investment only and not with a view to or for

sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates issued in such transactions. All recipients had adequate access, through their relationships with the Registrant, to information about the Registrant.

ITEM 16. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

(A) EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
1.1	Form of Underwriting Agreement
*3.1	Amended and Restated Articles of Incorporation of the Registrant
*3.2	Bylaws of the Registrant
*4.1	Reference is made to Exhibits 3.1 and 3.2
*4.2	Specimen Common Stock certificate
*4.3	Series A Preferred Stock Purchase Agreement, dated February 15, 1991, among the Registrant and certain investors named therein, as amended
5.1	Opinion of Brobeck, Phleger & Harrison LLP
*10.1	The Registrant's 1991 Stock Option/Stock Issuance Plan
*10.2	The Registrant's 1995 Stock Option/Stock Issuance Plan
*10.3	The Registrant's Employee Stock Purchase Plan
*10.4	Form of Indemnification Agreement entered into between the Registrant and its directors and officers
*10.5	Lease, dated May 26, 1994 regarding the space located at 3550, 3560, 3570 and 3580 Bassett Street, Santa Clara, California, as amended
*10.6	Lease, dated June 8, 1990 regarding the space located at 3845 Atherton Road, Rocklin, California, as amended
*10.7	Amended and Restated Promissory Note and Business Loan Agreement, dated July 10, 1995, as modified
*10.8	601 California Avenue LLC Limited Liability Operating Agreement, dated July 28, 1995
*10.9	The Registrant's 401(k) Profit Sharing Plan
*10.10	Purchase and Sale Agreement between Litton Systems, Inc. and Intevac Industries, Inc., Intevac, Inc., E.O. Sensors, Inc., dated May 5, 1995
*10.11	Stock Sale Agreement, Note Secured by Stock Pledge Agreement and Stock Pledge Agreement by and between Intevac, Inc. and Paul Colombo, dated August 24, 1994.
**10.12	Amended and Restated Loan Agreement, dated March 14, 1996
10.13	Stock Purchase Agreement by and among Lotus Technologies, Inc., Lewis Lipton, Dennis Stark, Steve Romine and Intevac, Inc., dated June 6, 1996
11.1	Computation of Net Income Per Share
23.1	Consent of Ernst & Young LLP, Independent Auditors
23.2	Consent of Ernst & Young LLP, Independent Auditors
23.3	Consent of Brobeck, Phleger & Harrison LLP. Reference is made to Exhibit 5.1
24.1	Power of Attorney (see page II-4).

* Previously filed as an Exhibit to the Registrant's Registration Statement on Form S-1 (No. 33-97806).

** Previously filed as an Exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 30, 1996.

Schedule II -- Valuations and Qualifying Accounts.

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

ITEM 17. UNDERTAKINGS

The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of Prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Palo Alto, State of California, on this 7th day of June, 1996.

INTEVAC, INC.

By: /s/ CHARLES B. EDDY

Charles B. Eddy III
Vice President, Finance and
Administration, Chief Financial
Officer, Treasurer
and Secretary (Principal Financial
and
Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Norman H. Pond and Charles B. Eddy III, 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 Registration Statement on Form S-1, 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 ACT OF 1933, AS AMENDED, THIS AMENDMENT TO THE REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED:

SIGNATURE	TITLE	DATE
----- /s/ NORMAN H. POND ----- (Norman H. Pond)	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	June 7, 1996
/s/ CHARLES B. EDDY III ----- (Charles B. Eddy III)	Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)	June 7, 1996
/s/ JOHN R. DOUGERY ----- (John R. Dougery)	Director	June 7, 1996
----- (Edward Durbin)	Director	June , 1996
/s/ DAVID N. LAMBETH ----- (David N. Lambeth)	Director	June 7, 1996
/s/ H. JOSEPH SMEAD ----- (H. Joseph Smead)	Director	June 7, 1996

**SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
INTEVAC, INC.**

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS			DEDUCTIONS -- DESCRIBE	BALANCE AT END OF PERIOD
		CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS -- DESCRIBE			
Year ended December 31, 1993:						
Deducted from asset accounts:						
Allowance for doubtful accounts.....	\$ 65,019	\$152,233	\$ 0	\$ 23,490	\$193,762	
Year ended December 31, 1994:						
Deducted from asset accounts:						
Allowance for doubtful accounts.....	\$193,762	\$ 13,689	\$ 0	\$ 101,866	\$105,585	
Year ended December 31, 1995:						
Deducted from asset accounts:						
Allowance for doubtful accounts.....	\$105,585	\$524,953	\$ 0	\$ 169,909 (1)	\$460,629	

(1) Includes \$95,000 transferred to net assets of discontinued operations.

INTEVAC, INC.

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
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*3.2	Bylaws of the Registrant.....	
*4.1	Reference is made to Exhibits 3.1 and 3.2.....	
*4.2	Specimen Common Stock certificate.....	
*4.3	Series A Preferred Stock Purchase Agreement, dated February 15, 1991, among the Registrant and certain investors named therein, as amended.....	
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10.13	Stock Purchase Agreement by and among Lotus Technologies, Inc., Lewis Lipton, Dennis Stark, Steve Romine and Intevac, Inc., dated June 6, 1996...	
11.1	Computation of Net Income Per Share.....	
23.1	Consent of Ernst & Young LLP, Independent Auditors (see page II-5).....	
23.2	Consent of Ernst & Young LLP, Independent Auditors.....	
23.3	Consent of Brobeck, Phleger & Harrison LLP. Reference is made to Exhibit 5.1	
24.1	Power of Attorney (see page II-4).....	

* Previously filed as an Exhibit to the Registrant's Registration Statement on Form S-1 (No. 33-97806).

** Previously filed as an Exhibit to the Registrant's Quarterly Report on Form
10-Q for the quarter ended March 30, 1996.

2,250,000 SHARES(1)

INTEVAC, INC.

COMMON STOCK

UNDERWRITING AGREEMENT

, 1996

**ROBERTSON, STEPHENS & COMPANY LLC
HAMBRECHT & QUIST LLC**

As Representatives of the several Underwriters c/o Robertson, Stephens & Company LLC
555 California Street
Suite 2600
San Francisco, California 94104

Ladies/Gentlemen:

Intevac, Inc., a California corporation (the "Company"), and certain shareholders of the Company named in Schedule B hereto (hereafter called the "Selling Shareholders") address you as the Representatives of each of the persons, firms and corporations listed in Schedule A hereto (herein collectively called the "Underwriters") and hereby confirm their respective agreements with the several Underwriters as follows:

1. Description of Shares. The Company proposes to issue and sell 1,500,000 shares of its authorized and unissued Common Stock, no par value, to the several Underwriters. The Selling Shareholders, acting severally and not jointly, propose to sell an aggregate of 750,000 shares of the Company's authorized and outstanding Common Stock, no par value, to the several Underwriters. The 1,500,000 shares of Common Stock, no par value, of the Company to be sold by the Company are hereinafter called the "Company Shares" and the 750,000 shares of Common Stock, no par value, to be sold by the Selling Shareholders are hereinafter called the "Selling Shareholder Shares." The Company Shares and the Selling Shareholder Shares are hereinafter collectively referred to as the "Firm Shares." The Company also proposes to grant to the Underwriters an option to purchase up to 337,500 additional shares of the Company's Common Stock, no par value (the "Option Shares"), as provided in

Section 7 hereof. As used in this Agreement, the term "Shares" shall include the Firm Shares and the Option Shares. All shares of Common Stock, no par value, of the Company to be outstanding after giving effect to the sales contemplated hereby, including the Shares, are hereinafter referred to as "Common Stock." Unless the context otherwise requires, all representations and warranties of the Company herein shall also be deemed to be representations and warranties with respect to all predecessor entities, including without limitation Intevac Industries, Inc., and its subsidiary Intevac, Inc. and DKP Holding Co. and its subsidiary DKP Electronics.

2. Representations, Warranties and Agreements of the Company and the Selling Shareholders.

I. The Company represents and warrants to and agrees with each Underwriter and each Selling Shareholder that:

(a) A registration statement on Form S-1 (File No. 333-_____) with respect to the Shares, including a prospectus subject to completion, has been prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended (the "Act"), and the applicable rules and regulations (the "Rules

1 Plus an option to purchase up to 337,500 additional shares from the Company to cover over-allotments.

and Regulations") of the Securities and Exchange Commission (the "Commission") under the Act and has been filed with the Commission; such amendments to such registration statement, such amended prospectuses subject to completion and such abbreviated registration statements pursuant to Rule 462(b) of the Rules and Regulations as may have been required prior to the date hereof have been similarly prepared and filed with the Commission; and the Company will file such additional amendments to such registration statement, such amended prospectuses subject to completion and such abbreviated registration statements as may hereafter be required. Copies of such registration statement and amendments, of each related prospectus subject to completion (the "Preliminary Prospectuses") and of any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations have been delivered to you.

If the registration statement relating to the Shares has been declared effective under the Act by the Commission, the Company will prepare and promptly file with the Commission the information omitted from the registration statement pursuant to Rule 430A(a) or, if Robertson, Stephens & Company LLC, on behalf of the several Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the information required to be included in any term sheet filed pursuant to Rule 434(b) or (c), as applicable, of the Rules and Regulations pursuant to subparagraph (1), (4) or (7) of Rule 424(b) of the Rules and Regulations or as part of a post-effective amendment to the registration statement (including a final form of prospectus). If the registration statement relating to the Shares has not been declared effective under the Act by the Commission, the Company will prepare and promptly file an amendment to the registration statement, including a final form of prospectus, or, if Robertson, Stephens & Company LLC, on behalf of the several Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the information required to be included in any term sheet filed pursuant to Rule 434(b) or (c), as applicable, of the Rules and Regulations. The term "Registration Statement" as used in this Agreement shall mean such registration statement, including financial statements, schedules and exhibits, in the form in which it became or becomes, as the case may be, effective (including, if the Company omitted information from the registration statement pursuant to Rule 430A(a) or files a term sheet pursuant to Rule 434 of the Rules and Regulations, the information deemed to be a part of the registration statement at the time it became effective pursuant to Rule 430A(b) or Rule 434(d) of the Rules and Regulations) and, in the event of any amendment thereto or the filing of any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations relating thereto after the effective date of such registration statement, shall also mean (from and after the effectiveness of such amendment or the filing of such abbreviated registration statement) such registration statement as so amended, together with any such abbreviated registration statement. The term "Prospectus" as used in this Agreement shall mean the prospectus relating to the Shares as included in such Registration Statement at the time it becomes effective (including, if the Company omitted information from the Registration Statement pursuant to Rule 430A(a) of the Rules and Regulations, the information deemed to be a part of the Registration Statement at the time it became effective pursuant to Rule 430A(b) of the Rules and Regulations); provided, however, that if in reliance on Rule 434 of the Rules and Regulations and with the consent of Robertson, Stephens & Company LLC, on behalf of the several Underwriters, the Company shall have provided to the Underwriters a term sheet pursuant to Rule 434(b) or (c), as applicable, prior to the time that a confirmation is sent or given for purposes of Section 2(10)(a) of the Act, the Prospectus shall mean the "prospectus subject to completion" (as defined in Rule 434(g) of the Rules and Regulations) last provided to the Underwriters by the Company and circulated by the Underwriters to all prospective purchasers of the Shares (including the information deemed to be a part of the Registration Statement at the time it became effective pursuant to Rule 434(d) of the Rules and Regulations). Notwithstanding the foregoing, if any revised prospectus shall be provided to the Underwriters by the Company for use in connection with the offering of the Shares that differs from the prospectus referred to in the immediately preceding sentence (whether or not such revised prospectus is required to be filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations), the term "Prospectus" shall refer to such revised prospectus from and after the time it is first provided to the Underwriters for such use. If in reliance on Rule 434 of the Rules and Regulations and with the consent of Robertson, Stephens & Company LLC, on behalf of the several Underwriters, the Company shall have provided to the Underwriters a term sheet pursuant to Rule 434(b) or (c), as applicable, prior to the time that a confirmation is sent or given for purposes of Section 2(10)(a) of the Act, the Prospectus and the term sheet, together, will not be materially different from the prospectus in the Registration Statement.

(b) The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus or instituted proceedings for that purpose, and each such Preliminary Prospectus has conformed in all material respects to the requirements of the Act and the Rules and Regulations and, as of its date, has not included any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and at the time the Registration Statement became or becomes, as the case may be, effective and at all times subsequent thereto up to and on the Closing Date (hereinafter defined) and on any later date on which Option Shares are to be purchased, (i) the Registration Statement and the Prospectus, and any amendments or supplements thereto, contained and will contain all material information required to be included therein by the Act and the Rules and Regulations and will in all material respects conform to the requirements of the Act and the Rules and Regulations, (ii) the Registration Statement, and any amendments or supplements thereto, did not and will not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (iii) the Prospectus, and any amendments or supplements thereto, did not and will not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties contained in this subparagraph (b) shall apply to information contained in or omitted from the Registration Statement or Prospectus, or any amendment or supplement thereto, in reliance upon, and in conformity with, written information relating to any Underwriter furnished to the Company by such Underwriter specifically for use in the preparation thereof.

(c) Each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation with full power and authority (corporate and other) to own, lease and operate its properties and conduct its business as described in the Prospectus; the transfer of certain assets by Varian Associates, Inc. to DKP Electronics and the acquisition of DKP Electronics from Varian Associates, Inc. by DKP Holding Co. pursuant to the Capitalization Agreement between both parties dated February 15, 1991 (the "Acquisition") was duly and properly effectuated in accordance with applicable corporate and other laws, and DKP Electronics received good and marketable title to all properties and assets transferred to it by Varian Associates, Inc. in connection with the Acquisition; the Company owns all of the outstanding capital stock of its subsidiaries free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest; each of the Company and its subsidiaries is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified or be in good standing would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise; no proceeding has been instituted in any such jurisdiction, revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority or qualification; each of the Company and its subsidiaries is in possession of and operating in compliance with all authorizations, licenses, certificates, consents, orders and permits from state, federal and other regulatory authorities which are material to the conduct of its business, all of which are valid and in full force and effect; neither the Company nor any of its subsidiaries is in violation of its respective charter or bylaws or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any bond, debenture, note or other evidence of indebtedness, or in any lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of its subsidiaries or their respective properties may be bound, except where such violation or default would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise; and neither the Company nor any of its subsidiaries is in violation of any material law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective properties of which it has knowledge. The Company does not own or control, directly or indirectly, any corporation, association or other entity other than Intevac Foreign Sales Corporation, Intevac GmbH, Intevac Asia Pte Ltd., San Jose Technology Corp., and Lotus Technologies, Inc. ("Lotus"); and, other than Lotus, none of the subsidiaries of the Company is a "significant subsidiary," as such term is defined in Rule 405 of the Rules and Regulations and none of such

subsidiaries have operations, assets or liabilities that are material to the condition (financial or otherwise) earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(d) The Company has full legal right, power and authority to enter into this Agreement and perform the transactions contemplated hereby. This Agreement has been duly authorized, executed and delivered by the Company and is a valid and binding agreement on the part of the Company, enforceable in accordance with its terms, except as rights to indemnification and contribution hereunder may be limited by applicable law and except as the enforcement hereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; the performance of this Agreement and the consummation of the transactions herein contemplated will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, (i) any bond, debenture, note or other evidence of indebtedness, or under any lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of its subsidiaries or their respective properties may be bound, (ii) the charter or bylaws of the Company or any of its subsidiaries, or (iii) any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective properties except with respect to (i) and (ii) where such breach, violation or default would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise. No consent, approval, authorization or order of or qualification with any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective properties is required for the execution and delivery of this Agreement and the consummation by the Company or any of its subsidiaries of the transactions herein contemplated, except such as may be required under the Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act") which shall be obtained on or prior to the Closing Date, or except such as may be required under state or other securities or Blue Sky laws.

(e) There is not any pending or, to the best of the Company's knowledge, threatened action, suit, claim or proceeding against the Company, any of its subsidiaries or any of their respective officers or any of their respective properties, assets or rights before any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective officers or properties or otherwise which (i) might result in any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise or might materially and adversely affect their properties, assets or rights, (ii) might prevent consummation of the transactions contemplated hereby or (iii) is required to be disclosed in the Registration Statement or Prospectus and is not so disclosed; and there are no agreements, contracts, leases or documents of the Company or any of its subsidiaries of a character required to be described or referred to in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement by the Act or the Rules and Regulations which have not been accurately described in all material respects in the Registration Statement or Prospectus or filed as exhibits to the Registration Statement.

(f) All outstanding shares of capital stock of the Company (including the Selling Shareholder Shares) have been duly authorized and validly issued and are fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, and the authorized and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" and conforms in all material respects to the statements relating thereto contained in the Registration Statement and the Prospectus (and such statements correctly state the substance of the instruments defining the capitalization of the Company); the Company Shares and the Option Shares have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, when issued and delivered by the Company against payment therefor in accordance with the terms of this Agreement, will be duly and validly issued and fully paid and nonassessable, and will be sold free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest; and no preemptive right, co-sale right, registration right, right of first refusal or other similar right of shareholders exists with respect to any of the Company Shares or Option Shares or the issuance and sale thereof other than those that have been

expressly waived prior to the date hereof and those that will automatically expire upon and will not apply to the consummation of the transactions contemplated on the Closing Date. No further approval or authorization of any shareholder, the Board of Directors of the Company or others is required for the issuance and sale or transfer of the Shares, except as may be required under the Act or the Exchange Act which shall be obtained on or prior to the Closing Date, or except as may be required under state or other securities or Blue Sky laws. All issued and outstanding shares of capital stock of each subsidiary of the Company have been duly authorized and validly issued and are fully paid and nonassessable, and were not issued in violation of or subject to any preemptive right, or other rights to subscribe for or purchase shares and are owned by the Company free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest. Except as disclosed in the Prospectus and the financial statements of the Company, and the related notes thereto, included in the Prospectus, neither the Company nor any subsidiary has outstanding any options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of its capital stock or any such options, rights, convertible securities or obligations. The description of the Company's stock option, stock bonus and other stock plans or arrangements, and the options or other rights granted and exercised thereunder, set forth in the Prospectus accurately and fairly presents the information required to be shown with respect to such plans, arrangements, options and rights.

(g) Ernst & Young LLP, which has examined (i) the consolidated financial statements of the Company, together with the related schedules and notes, as of December 31, 1995 and March 30, 1996 and for each of the years in the three (3) years ended December 31, 1995 and for the three (3) months ended March 30, 1996 and (ii) the financial statements of Lotus, together with the related notes, as of January 31, 1996 and April 30, 1996 and for the twelve (12) months ended January 31, 1996 and for the three (3) months ended April 30, 1996, each filed with the Commission as a part of the Registration Statement, which are included in the Prospectus, are independent accountants within the meaning of the Act and the Rules and Regulations; the audited consolidated financial statements of the Company, together with the related schedules and notes, the unaudited consolidated financial information and the audited financial statements of Lotus, together with the related notes, forming part of the Registration Statement and Prospectus, fairly present the financial position and the results of operations of the Company and its subsidiaries and Lotus, as the case may be, at the respective dates and for the respective periods to which they apply; and all audited consolidated financial statements of the Company, together with the related schedules and notes, the unaudited consolidated financial information and the audited financial statements of Lotus, together with the related notes, filed with the Commission as part of the Registration Statement, have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved except as may be otherwise stated therein. The selected and summary financial and statistical data included in the Registration Statement present fairly the information shown therein and have been compiled on a basis consistent with the audited financial statements presented therein. The pro forma financial information included in the Registration Statement and Prospectus comply as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X and present fairly the information shown therein. No other financial statements or schedules are required to be included in the Registration Statement.

(h) Subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been (i) any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise, (ii) any transaction that is material to the Company and its subsidiaries considered as one enterprise, except transactions entered into in the ordinary course of business, (iii) any obligation, direct or contingent, that is material to the Company and its subsidiaries considered as one enterprise, incurred by the Company or its subsidiaries, except obligations incurred in the ordinary course of business,

(iv) any change in the capital stock or outstanding indebtedness of the Company or any of its subsidiaries that is material to the Company and its subsidiaries considered as one enterprise, (v) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company or any of its subsidiaries, or (vi) any loss or damage (whether or not insured) to the property of the Company or any of its subsidiaries which has been sustained or will have been sustained which has a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(i) Except as set forth in the Registration Statement and Prospectus (i) each of the Company and its subsidiaries has good and marketable title to all properties and assets described in the Registration Statement and Prospectus as owned by it, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest, other than such as would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise, (ii) the agreements to which the Company or any of its subsidiaries is a party described in the Registration Statement and Prospectus are valid agreements, enforceable by the Company and its subsidiaries (as applicable), except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles and, to the Company's knowledge, the other contracting party or parties thereto are not in material breach or material default under any of such agreements, and (iii) each of the Company and its subsidiaries has valid and enforceable leases for all properties described in the Registration Statement and Prospectus as leased by it, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles. Except as set forth in the Registration Statement and Prospectus, the Company owns or leases all such properties as are necessary to its operations as now conducted or as proposed to be conducted.

(j) The Company and its subsidiaries have timely filed all necessary federal, state and foreign income and franchise tax returns and have paid all taxes shown thereon as due, and there is no tax deficiency that has been or, to the Company's knowledge, might be asserted against the Company or any of its subsidiaries that might have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise; and all tax liabilities are adequately provided for on the books of the Company and its subsidiaries.

(k) The Company and its subsidiaries maintain insurance with insurers of recognized financial responsibility of the types and in the amounts generally deemed adequate for their respective businesses and consistent with insurance coverage maintained by similar companies in similar businesses, including, but not limited to, insurance covering real and personal property owned or leased by the Company or its subsidiaries against theft, damage, destruction, acts of vandalism and all other risks customarily insured against, all of which insurance is in full force and effect; neither the Company nor any such subsidiary has been refused any insurance coverage sought or applied for; and neither the Company nor any such subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not materially and adversely affect the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(l) To the Company's knowledge, no labor disturbance by the employees of the Company or any of its subsidiaries exists or is imminent; and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its principal suppliers or customers, that might be expected to result in a material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise. No collective bargaining agreement exists with any of the Company's employees and, to the Company's knowledge, no such agreement is imminent.

(m) Each of the Company and its subsidiaries owns or possesses adequate rights to use all patents, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names and copyrights which are necessary to conduct its businesses as described in the Registration Statement and Prospectus; the expiration of any patents, patent rights, trade secrets, trademarks, service marks, trade names or copyrights would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise; the Company has not received any notice of, and has no knowledge of, any infringement of or conflict with asserted rights of the Company by others with respect to any patent, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names or copyrights; and the Company has not received any notice of, and has no knowledge of, any infringement of or conflict with asserted rights of others with respect to any patent, patent rights, inventions, trade

secrets, know-how, trademarks, service marks, trade names or copyrights which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(n) The Common Stock is registered pursuant to

Section 12(g) of the Exchange Act and is listed on The Nasdaq National Market, and the Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or delisting the Common Stock from The Nasdaq National Market, nor has the Company received any notification that the Commission or the National Association of Securities Dealers, Inc. ("NASD") is contemplating terminating such registration or listing.

(o) The Company has been advised concerning the Investment Company Act of 1940, as amended (the "1940 Act"), and the rules and regulations thereunder, and has in the past conducted, and intends in the future to conduct, its affairs in such a manner as to ensure that it will not become an "investment company" or a company "controlled" by an "investment company" within the meaning of the 1940 Act and such rules and regulations.

(p) The Company has not distributed and will not distribute prior to the later of (i) the Closing Date, or any date on which Option Shares are to be purchased, as the case may be, and (ii) completion of the distribution of the Shares, any offering material in connection with the offering and sale of the Shares other than any Preliminary Prospectuses, the Prospectus, the Registration Statement and other materials, if any, permitted by the Act.

(q) Neither the Company nor any of its subsidiaries has at any time during the last five (5) years (i) made any unlawful contribution to any candidate for foreign office or failed to disclose fully any contribution in violation of law, or (ii) made any payment to any federal or state governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States or any jurisdiction thereof.

(r) The Company has not taken and will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(s) Each officer and director of the Company, each Selling Shareholder, and certain other beneficial owners of an aggregate of _____ shares of Common Stock have agreed in writing that such person will not, until 90 days from the date of the Prospectus (the "Lock-up Period"), offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to (collectively, a "Disposition") any shares of Common Stock, any options or warrants to purchase any shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock (collectively, "Securities") now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, (ii) as a distribution to partners or shareholders of such person, provided that the distributees thereof agree in writing to be bound by the terms of this restriction, or (iii) with the prior written consent of Robertson, Stephens & Company LLC. The foregoing restriction has been expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than such holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from Securities. Furthermore, such person has also agreed and consented to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the Securities held by such person except in compliance with this restriction. The Company has provided to counsel for the Underwriters a complete and accurate list of all

securityholders of the Company and the number and type of securities held by each securityholder. The Company has provided to counsel for the Underwriters true, accurate and complete copies of all of the agreements pursuant to which its officers, directors and shareholders have agreed to such or similar restrictions (the "Lock-up Agreements") presently in effect or effected hereby. The Company hereby represents and warrants that it will not release any of its officers, directors or other shareholders from any Lock-up Agreements currently existing or hereafter effected without the prior written consent of Robertson, Stephens & Company LLC. The Company further represents and warrants that with respect to the Company's 1995 Stock Option/Issuance Plan it will not grant any options that will vest until after the Lock-up Period and that the Company will not waive any rights it may have to repurchase any shares proposed to be sold that were issued upon exercise of unvested options granted under the Company's 1995 Stock Option/Issuance Plan.

(t) Except as set forth in the Registration Statement and Prospectus, (i) the Company is in compliance with all rules, laws and regulations relating to the use, treatment, storage and disposal of toxic substances and protection of health or the environment ("Environmental Laws") which are applicable to its business, (ii) the Company has received no notice from any governmental authority or third party of an asserted claim under Environmental Laws, which claim is required to be disclosed in the Registration Statement and the Prospectus, (iii) except as disclosed in the Registration Statement and Prospectus, the Company is unaware of the performance of any act which would require it to make future material capital expenditures to comply with Environmental Laws and (iv) except as disclosed in the Registration Statement and Prospectus, no property which is owned, leased or occupied by the Company now or in the past has been designated as a Superfund site pursuant to the Comprehensive Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. Section 9601, et seq.), or otherwise designated as a contaminated site under applicable state or local law.

(u) The Company and each of its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(v) There are no outstanding loans, advances (except normal advances for business expenses in the ordinary course of business) or guarantees of indebtedness by the Company to or for the benefit of any of the officers or directors of the Company or any of the members of the families of any of them, except as disclosed in the Registration Statement and the Prospectus.

(w) The Company has complied with all provisions of Section 517.075, Florida Statutes relating to doing business with the Government of Cuba or with any person or affiliate located in Cuba.

(x) The sales by the Company of: (i) its molecular beam epitaxy systems to Chorus Corporation on October 21, 1993; (ii) its night vision business to Litton Systems, Inc. on March 5, 1995; and (iii) its leasehold interest in 601 California Avenue, Palo Alto, California (the "Site") to 601 California Avenue LLC (the "LLC") on July 28, 1995, a limited liability Company formed and owned by the Company and certain shareholders of the Company, were effectuated in accordance with applicable corporate and other laws, and resulted in no liability of any kind to the Company, except as disclosed in the Registration Statement and Prospectus. The formation of the LLC was in accordance with the Beverly-Killea Limited Liability Company Act, as amended.

(y) The acquisition by the Company of: (i) San Jose Technology Corp. on May __, 1996; (ii) Cathode Technology Corporation on January __, 1996; and (iii) Lotus on June __, 1996 were effectuated in accordance with applicable corporate and other laws, and resulted in no liability to the Company, except as disclosed in the Registration Statement and Prospectus.

II. Each Selling Shareholder, severally and not jointly, represents and warrants to and agrees with each Underwriter and the Company that:

(a) Such Selling Shareholder now has and on the Closing Date will have valid marketable title to the Shares to be sold by such Selling Shareholder, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest other than pursuant to this Agreement; and upon delivery of such Shares hereunder and payment of the purchase price as herein contemplated, each of the Underwriters will obtain valid marketable title to the Shares purchased by it from such Selling Shareholder, free and clear of any pledge, lien, security interest pertaining to such Selling Shareholder or such Selling Shareholder's property, encumbrance, claim or equitable interest, including any liability for estate or inheritance taxes, or any liability to or claims of any creditor, devisee, legatee or beneficiary of such Selling Shareholder.

(b) Such Selling Shareholder has duly authorized (if applicable), executed and delivered, in the form heretofore furnished to the Representatives, an irrevocable Power of Attorney (the "Power of Attorney") appointing _____ and _____ as attorneys-in-fact (collectively, the "Attorneys" and individually, an "Attorney") and a Letter of Transmittal and Custody Agreement (the "Custody Agreement") with _____, as custodian (the "Custodian"); each of the Power of Attorney and the Custody Agreement constitutes a valid and binding agreement on the part of such Selling Shareholder, enforceable in accordance with its terms, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; and each of such Selling Shareholder's Attorneys, acting alone, is authorized to execute and deliver this Agreement and the certificate referred to in Section 6(h) hereof on behalf of such Selling Shareholder, to determine the purchase price to be paid by the several Underwriters to such Selling Shareholder as provided in Section 3 hereof, to authorize the delivery of the Selling Shareholder Shares under this Agreement and to duly endorse (in blank or otherwise) the certificate or certificates representing such Shares or a stock power or powers with respect thereto, to accept payment therefor, and otherwise to act on behalf of such Selling Shareholder in connection with this Agreement.

(c) All consents, approvals, authorizations and orders required for the execution and delivery by such Selling Shareholder of the Power of Attorney and the Custody Agreement, the execution and delivery by or on behalf of such Selling Shareholder of this Agreement and the sale and delivery of the Selling Shareholder Shares under this Agreement (other than, at the time of the execution hereof (if the Registration Statement has not yet been declared effective by the Commission), the issuance of the order of the Commission declaring the Registration Statement effective and such consents, approvals, authorizations or orders as may be necessary under state or other securities or Blue Sky laws) have been obtained and are in full force and effect; such Selling Shareholder, if other than a natural person, has been duly organized and is validly existing in good standing under the laws of the jurisdiction of its organization as the type of entity that it purports to be; and such Selling Shareholder has full legal right, power and authority to enter into and perform its obligations under this Agreement and such Power of Attorney and Custody Agreement, and to sell, assign, transfer and deliver the Shares to be sold by such Selling Shareholder under this Agreement.

(d) Such Selling Shareholder will not, during the Lock-up Period, effect the Disposition of any Securities now owned or hereafter acquired directly by such Selling Shareholder or with respect to which such Selling Shareholder has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, (ii) as a distribution to partners or shareholders of such Selling Shareholder, provided that the distributees thereof agree in writing to be bound by the terms of this restriction, or (iii) with the prior written consent of Robertson, Stephens & Company LLC. The foregoing restriction is expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than the Selling Shareholder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or

index) that includes, relates to or derives any significant part of its value from the Securities. Such Selling Shareholder also agrees and consents to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the securities held by such Selling Shareholder except in compliance with this restriction.

(e) Certificates in negotiable form for all Shares to be sold by such Selling Shareholder under this Agreement, together with a stock power or powers duly endorsed in blank by such Selling Shareholder, have been placed in custody with the Custodian for the purpose of effecting delivery hereunder.

(f) This Agreement has been duly authorized by each Selling Shareholder that is not a natural person and has been duly executed and delivered by or on behalf of such Selling Shareholder and is a valid and binding agreement of such Selling Shareholder, enforceable in accordance with its terms, except as rights to indemnification hereunder may be limited by applicable law and except as the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; and the performance of this Agreement and the consummation of the transactions herein contemplated will not result in a material breach or violation of any of the terms and provisions of, or constitute a default under,

(i) any bond, debenture, note or other evidence of indebtedness, or under any lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which such Selling Shareholder is a party or by which such Selling Shareholder, or any Selling Shareholder Shares hereunder or any properties of such Selling Stockholder may be bound, (ii) to the best of such Selling Shareholders' knowledge, result in any violation of any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over such Selling Shareholder or over the properties of such Selling Shareholder, or (iii) if such Selling Shareholder is other than a natural person, result in any violation of any provisions of the charter, bylaws or other organizational documents of such Selling Shareholder.

(g) Such Selling Shareholder has not taken and will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(h) Such Selling Shareholder has not distributed and will not distribute any prospectus or other offering material in connection with the offering and sale of the Shares.

(i) All information furnished by or on behalf of such Selling Shareholder relating to such Selling Shareholder and the Selling Shareholder Shares that is contained in the representations and warranties of such Selling Shareholder in such Selling Shareholder's Power of Attorney or set forth in the Registration Statement or the Prospectus is, and at the time the Registration Statement became or becomes, as the case may be, effective and at all times subsequent thereto up to and on the Closing Date, was or will be, true, correct and complete, and does not, and at the time the Registration Statement became or becomes, as the case may be, effective and at all times subsequent thereto up to and on the Closing Date (hereinafter defined), will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information not misleading.

(j) Such Selling Shareholder will review the Prospectus and will comply with all agreements and satisfy all conditions on its part to be complied with or satisfied pursuant to this Agreement on or prior to the Closing Date and will advise one of its Attorneys and Robertson, Stephens & Company LLC prior to the Closing Date if any statement to be made on behalf of such Selling Shareholder in the certificate contemplated by Section 6(h) would be inaccurate if made as of the Closing Date.

(k) Such Selling Shareholder does not have, or has waived prior to the date hereof, any preemptive right, co-sale right or right of first refusal or other similar right to purchase any of the Shares that are to be sold by the Company or any of the other Selling Shareholders to the Underwriters pursuant to this Agreement; such Selling Shareholder does not have, or has waived prior to the date hereof, any registration right or other similar right to participate in the offering made by the Prospectus, other than such rights of participation as have been

satisfied by the participation of such Selling Shareholder in the transactions to which this Agreement relates in accordance with the terms of this Agreement; and such Selling Shareholder does not own any warrants, options or similar rights to acquire, and does not have any right or arrangement to acquire, any capital stock, rights, warrants, options or other securities from the Company, other than those described in the Registration Statement and the Prospectus.

(l) Such Selling Shareholder is not aware that any of the representations and warranties of the Company set forth in Section 2.I. above is untrue or inaccurate in any material respect.

3. Purchase, Sale and Delivery of Shares. On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company and the Selling Shareholders agree, severally and not jointly, to sell to the Underwriters, and each Underwriter agrees, severally and not jointly, to purchase from the Company and the Selling Shareholders, respectively, at a purchase price of \$_____ per share, the respective number of Company Shares as hereinafter set forth and Selling Shareholder Shares set forth opposite the names of the Company and the Selling Shareholders in Schedule B hereto. The obligation of each Underwriter to the Company and to each Selling Shareholder shall be to purchase from the Company or such Selling Shareholder that number of Company Shares or Selling Shareholder Shares, as the case may be, which (as nearly as practicable, as determined by you) is in the same proportion to the number of Company Shares or Selling Shareholder Shares, as the case may be, set forth opposite the name of the Company or such Selling Shareholder in Schedule B hereto as the number of Firm Shares which is set forth opposite the name of such Underwriter in Schedule A hereto (subject to adjustment as provided in Section 10) is to the total number of Firm Shares to be purchased by all the Underwriters under this Agreement.

The certificates in negotiable form for the Selling Shareholder Shares have been placed in custody (for delivery under this Agreement) under the Custody Agreement. Each Selling Shareholder agrees that the certificates for the Selling Shareholder Shares of such Selling Shareholder so held in custody are subject to the interests of the Underwriters hereunder, that the arrangements made by such Selling Shareholder for such custody, including the Power of Attorney is to that extent irrevocable and that the obligations of such Selling Shareholder hereunder shall not be terminated by any act of such Selling Shareholder or by operation of law, whether by the death or incapacity of such Selling Shareholder or the occurrence of any other event, except as specifically provided herein or in the Custody Agreement. If any Selling Shareholder should die or be incapacitated, or if any other such event should occur, before the delivery of the certificates for the Selling Shareholder Shares hereunder, the Selling Shareholder Shares to be sold by such Selling Shareholder shall, except as specifically provided herein or in the Custody Agreement, be delivered by the Custodian in accordance with the terms and conditions of this Agreement as if such death, incapacity or other event had not occurred, regardless of whether the Custodian shall have received notice of such death or other event.

Delivery of definitive certificates for the Firm Shares to be purchased by the Underwriters pursuant to this Section 3 shall be made against receipt of a wire transfer reference number issued by the Federal Reserve System evidencing payment of the purchase price therefor by the several Underwriters by wire transfer of immediately available funds, to an account specified in writing by the Company with regard to the Shares being purchased from the Company, and to an account specified in writing by the Custodian for the respective accounts of the Selling Shareholders with regard to the Shares being purchased from such Selling Shareholders, at the offices of Brobeck, Phleger & Harrison, Two Embarcadero Place, 2200 Geng Road, Palo Alto, California 94303 (or at such other place as may be agreed upon among the Representatives and the Company), at 7:00 A.M., San Francisco time (a) on the third (3rd) full business day following the first day that Shares are traded, (b) if this Agreement is executed and delivered after 1:30 P.M., San Francisco time, the fourth (4th) full business day following the day that this Agreement is executed and delivered or (c) at such other time and date not later than seven (7) full business days following the first day that Shares are traded as the Representatives and the Company may determine (or at such time and date to which payment and delivery shall have been postponed pursuant to Section 10 hereof), such time and date of payment and delivery being herein called the "Closing Date;" provided, however, that if the Company has not made available to the Representatives copies of the Prospectus within the time provided in Section 4(d) hereof, the Representatives may, in their sole discretion, postpone the Closing Date until no later than

two (2) full business days following delivery of copies of the Prospectus to the Representatives. The certificates for the Firm Shares to be so delivered will be made available to you at such office or such other location including, without limitation, in New York City, as you may reasonably request for checking at least one (1) full business day prior to the Closing Date and will be in such names and denominations as you may request, such request to be made at least two (2) full business days prior to the Closing Date. If the Representatives so elect, delivery of the Firm Shares may be made by credit through full fast transfer to the accounts at The Depository Trust Company designated by the Representatives.

It is understood that you, individually, and not as the Representatives of the several Underwriters, may (but shall not be obligated to) make payment of the purchase price on behalf of any Underwriter or Underwriters whose check or checks shall not have been received by you prior to the Closing Date for the Firm Shares to be purchased by such Underwriter or Underwriters. Any such payment by you shall not relieve any such Underwriter or Underwriters of any of its or their obligations hereunder.

After the Registration Statement becomes effective, the several Underwriters intend to make an initial public offering (as such term is described in Section 11 hereof) of the Firm Shares at an initial public offering price of \$_____ per share. After the initial public offering, the several Underwriters may, in their discretion, vary the public offering price.

The information set forth in the last paragraph on the front cover page (insofar as such information relates to the Underwriters), on the inside front cover page concerning stabilization, over-allotment and passive market making by the Underwriters and in the second and sixth paragraphs under the caption "Underwriting" in any Preliminary Prospectus and in the Prospectus constitutes the only information furnished by the Underwriters to the Company for inclusion in any Preliminary Prospectus, the Prospectus or the Registration Statement, and you, on behalf of the respective Underwriters, represent and warrant to the Company and the Selling Shareholders that the statements made therein do not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

4. Further Agreements of the Company. The Company agrees with the several Underwriters that:

(a) The Company will use its best efforts to cause the Registration Statement and any amendment thereof, if not effective at the time and date that this Agreement is executed and delivered by the parties hereto, to become effective as promptly as possible; the Company will use its best efforts to cause any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations as may be required subsequent to the date the Registration Statement is declared effective to become effective as promptly as possible; the Company will notify you, promptly after it shall receive notice thereof, of the time when the Registration Statement, any subsequent amendment to the Registration Statement or any abbreviated registration statement has become effective or any supplement to the Prospectus has been filed; if the Company omitted information from the Registration Statement at the time it was originally declared effective in reliance upon Rule 430A(a) of the Rules and Regulations, the Company will provide evidence satisfactory to you that the Prospectus contains such information and has been filed, within the time period prescribed, with the Commission pursuant to subparagraph (1) or (4) of Rule 424(b) of the Rules and Regulations or as part of a post-effective amendment to such Registration Statement as originally declared effective which is declared effective by the Commission; if the Company files a term sheet pursuant to Rule 434 of the Rules and Regulations, the Company will provide evidence satisfactory to you that the Prospectus and term sheet meeting the requirements of Rule 434(b) or (c), as applicable, of the Rules and Regulations, have been filed, within the time period prescribed, with the Commission pursuant to subparagraph (7) of Rule 424(b) of the Rules and Regulations; if for any reason the filing of the final form of Prospectus is required under Rule 424(b)(3) of the Rules and Regulations, it will provide evidence satisfactory to you that the Prospectus contains such information and has been filed with the Commission within the time period prescribed; it will notify you promptly of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; promptly upon your request, it will prepare and file with the Commission any amendments or supplements to the Registration Statement or Prospectus which, in the opinion of

counsel for the several Underwriters ("Underwriters' Counsel"), may be necessary or advisable in connection with the distribution of the Shares by the Underwriters; it will promptly prepare and file with the Commission, and promptly notify you of the filing of, any amendments or supplements to the Registration Statement or Prospectus which may be necessary to correct any statements or omissions, if, at any time when a prospectus relating to the Shares is required to be delivered under the Act, any event shall have occurred as a result of which the Prospectus or any other prospectus relating to the Shares as then in effect would include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; in case any Underwriter is required to deliver a prospectus nine (9) months or more after the effective date of the Registration Statement in connection with the sale of the Shares, it will prepare promptly upon request, but at the expense of such Underwriter, such amendment or amendments to the Registration Statement and such prospectus or prospectuses as may be necessary to permit compliance with the requirements of Section 10(a)(3) of the Act; and it will file no amendment or supplement to the Registration Statement or Prospectus which shall not previously have been submitted to you a reasonable time prior to the proposed filing thereof or to which you shall reasonably object in writing, subject, however, to compliance with the Act and the Rules and Regulations and the provisions of this Agreement.

(b) The Company will advise you, promptly after it shall receive notice or obtain knowledge, of the issuance of any stop order by the Commission suspending the effectiveness of the Registration Statement or of the initiation or threat of any proceeding for that purpose; and it will promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal at the earliest possible moment if such stop order should be issued.

(c) The Company will use its best efforts to qualify the Shares for offering and sale under the securities laws of such jurisdictions as you may designate and to continue such qualifications in effect for so long as may be required for purposes of the distribution of the Shares, except that the Company shall not be required in connection therewith or as a condition thereof to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction in which it is not otherwise required to be so qualified or to so execute a general consent to service of process. In each jurisdiction in which the Shares shall have been qualified as above provided, the Company will make and file such statements and reports in each year as are or may be required by the laws of such jurisdiction.

(d) The Company will furnish to you, as soon as available, and, in the case of the Prospectus and any term sheet or abbreviated term sheet under Rule 434, in no event later than the first (1st) full business day following the first day that Shares are traded, copies of the Registration Statement (three of which will be signed and which will include all exhibits), each Preliminary Prospectus, the Prospectus and any amendments or supplements to such documents, including any prospectus prepared to permit compliance with Section 10(a)(3) of the Act, all in such quantities as you may from time to time reasonably request. Notwithstanding the foregoing, if Robertson, Stephens & Company LLC, on behalf of the several Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the Company shall provide to you copies of a Preliminary Prospectus updated in all respects through the date specified by you in such quantities as you may from time to time reasonably request.

(e) The Company will make generally available to its securityholders as soon as practicable, but in any event not later than the forty-fifth (45th) day following the end of the fiscal quarter first occurring after the first anniversary of the effective date of the Registration Statement, an earnings statement (which will be in reasonable detail but need not be audited) complying with the provisions of Section 11(a) of the Act and covering a twelve (12) month period beginning after the effective date of the Registration Statement.

(f) During a period of five (5) years after the date hereof, the Company will furnish to its shareholders as soon as practicable after the end of each respective period, annual reports (including financial statements audited by independent certified public accountants) and unaudited quarterly reports of operations for each of the first three quarters of the fiscal year, and will furnish to you and the other several Underwriters hereunder, upon request (i) concurrently with furnishing such reports to its shareholders, statements of operations of the Company for each of the first three (3) quarters in the form furnished to the Company's shareholders, (ii) concur-

rently with furnishing to its shareholders, a balance sheet of the Company as of the end of such fiscal year, together with statements of operations, of shareholders' equity, and of cash flows of the Company for such fiscal year, accompanied by a copy of the certificate or report thereon of independent certified public accountants, (iii) as soon as they are available, copies of all reports (financial or other) mailed to shareholders, (iv) as soon as they are available, copies of all reports and financial statements furnished to or filed with the Commission, any securities exchange or the NASD, (v) every material press release and every material news item or article in respect of the Company, its subsidiaries or its or their affairs which was generally released to shareholders or prepared by the Company or any of its subsidiaries, and (vi) any additional information of a public nature concerning the Company or its subsidiaries, or its business which you may reasonably request. During such five (5) year period, if the Company shall have active subsidiaries, the foregoing financial statements shall be on a consolidated basis to the extent that the accounts of the Company and its subsidiaries are consolidated, and shall be accompanied by similar financial statements for any significant subsidiary which is not so consolidated.

(g) The Company will apply the net proceeds from the sale of the Shares being sold by it in the manner set forth under the caption "Use of Proceeds" in the Prospectus.

(h) The Company will maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar (which may be the same entity as the transfer agent) for its Common Stock.

(i) If the transactions contemplated hereby are not consummated by reason of any failure, refusal or inability on the part of the Company or any Selling Shareholder to perform any agreement on their respective parts to be performed hereunder or to fulfill any condition of the Underwriters' obligations hereunder, or if the Company shall terminate this Agreement pursuant to Section 11(a) hereof, or if the Underwriters shall terminate this Agreement pursuant to Section 11(b)(i), the Company will reimburse the several Underwriters for all out-of-pocket expenses (including fees and disbursements of Underwriters' Counsel) incurred by the Underwriters in investigating or preparing to market or marketing the Shares.

(j) If at any time during the ninety (90) day period after the Registration Statement becomes effective, any rumor, publication or event relating to or affecting the Company shall occur as a result of which in your opinion the market price of the Common Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus), the Company will, after written notice from you advising the Company to the effect set forth above, forthwith prepare, consult with you concerning the substance of and disseminate a press release or other public statement, reasonably satisfactory to you, responding to or commenting on such rumor, publication or event.

(k) During the Lock-up Period, the Company will not, without the prior written consent of Robertson, Stephens & Company LLC, effect the Disposition of, directly or indirectly, any Securities other than the sale of the Company Shares and the Option Shares hereunder and the Company's issuance of options or Common Stock under the Company's presently authorized 1991 Stock Option/Stock Issuance Plan, 1995 Stock Option/Stock Issuance Plan and Employee Stock Purchase Plan (the "Plans").

(l) During a period of ninety (90) days from the effective date of the Registration Statement, the Company will not file a registration statement registering shares under the Plans or other employee benefit plan.

5. Expenses.

(a) The Company and the Selling Shareholders agree with each Underwriter that:

(i) The Company will pay and bear all costs and expenses in connection with the preparation, printing and filing of the Registration Statement (including financial statements, schedules and exhibits), Preliminary Prospectuses and the Prospectus and any amendments or supplements thereto; the printing of

this Agreement, the Agreement Among Underwriters, the Selected Dealer Agreement, the Preliminary Blue Sky Survey and any Supplemental Blue Sky Survey, the Underwriters' Questionnaire and Power of Attorney, and any instruments related to any of the foregoing; the issuance and delivery of the Shares hereunder to the several Underwriters, including transfer taxes, if any, the cost of all certificates representing the Shares and transfer agents' and registrars' fees; the fees and disbursements of counsel for the Company; all fees and other charges of the Company's independent certified public accountants; the cost of furnishing to the several Underwriters copies of the Registration Statement (including appropriate exhibits), Preliminary Prospectus and the Prospectus, and any amendments or supplements to any of the foregoing; NASD filing fees and the cost of qualifying the Shares under the laws of such jurisdictions as you may designate (including filing fees and fees and disbursements of Underwriters' Counsel in connection with such NASD filings and Blue Sky qualifications); and all other expenses directly incurred by the Company and the Selling Shareholders in connection with the performance of their obligations hereunder. Any additional expenses incurred as a result of the sale of the Shares by the Selling Shareholders will be borne collectively by the Company and the Selling Shareholders. The provisions of this Section 5(a)(i) are intended to relieve the Underwriters from the payment of the expenses and costs which the Selling Shareholders and the Company hereby agree to pay, but shall not affect any agreement which the Selling Shareholders and the Company may make, or may have made, for the sharing of any of such expenses and costs. Such agreements shall not impair the obligations of the Company and the Selling Shareholders hereunder to the several Underwriters.

(ii) In addition to its other obligations under Section 8(a) hereof, the Company agrees that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding described in Section 8(a) hereof, it will reimburse the Underwriters on a monthly basis for all reasonable legal or other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the Company's obligation to reimburse the Underwriters for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Underwriters shall promptly return such payment to the Company together with interest, compounded daily, determined on the basis of the prime rate (or other commercial lending rate for borrowers of the highest credit standing) listed from time to time in The Wall Street Journal which represents the base rate on corporate loans posted by a substantial majority of the nation's thirty (30) largest banks (the "Prime Rate"). Any such interim reimbursement payments which are not made to the Underwriters within thirty (30) days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request.

(iii) In addition to their other obligations under Section 8(b) hereof, each Selling Shareholder agrees that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding described in Section 8(b) hereof relating to such Selling Shareholder, it will reimburse the Underwriters on a monthly basis for all reasonable legal or other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of such Selling Shareholder's obligation to reimburse the Underwriters for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Underwriters shall promptly return such payment to the Selling Shareholders, together with interest, compounded daily, determined on the basis of the Prime Rate. Any such interim reimbursement payments which are not made to the Underwriters within thirty (30) days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request.

(b) In addition to their other obligations under Section 8(b) hereof, the Underwriters severally and not jointly agree that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding described in Section 8(b) hereof, they will reimburse the Company and each Selling Shareholder on a monthly basis for all reasonable legal or other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the Underwriters' obligation to reimburse the

Company and each such Selling Shareholder for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Company and each such Selling Shareholder shall promptly return such payment to the Underwriters together with interest, compounded daily, determined on the basis of the Prime Rate. Any such interim reimbursement payments which are not made to the Company and each such Selling Shareholder within thirty (30) days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request.

(c) It is agreed that any controversy arising out of the operation of the interim reimbursement arrangements set forth in Sections 5(a)(ii), 5(a)(iii) and 5(b) hereof, including the amounts of any requested reimbursement payments, the method of determining such amounts and the basis on which such amounts shall be apportioned among the reimbursing parties, shall be settled by arbitration conducted under the provisions of the Constitution and Rules of the Board of Governors of the New York Stock Exchange, Inc. or pursuant to the Code of Arbitration Procedure of the NASD. Any such arbitration must be commenced by service of a written demand for arbitration or a written notice of intention to arbitrate, therein electing the arbitration tribunal. In the event the party demanding arbitration does not make such designation of an arbitration tribunal in such demand or notice, then the party responding to said demand or notice is authorized to do so. Any such arbitration will be limited to the operation of the interim reimbursement provisions contained in Sections 5(a)(ii), 5(a)(iii) and 5(b) hereof and will not resolve the ultimate propriety or enforceability of the obligation to indemnify for expenses which is created by the provisions of Sections 8(a), 8(b) and 8(c) hereof or the obligation to contribute to expenses which is created by the provisions of Section 8(e) hereof.

6. Conditions of Underwriters' Obligations. The obligations of the several Underwriters to purchase and pay for the Shares as provided herein shall be subject to the accuracy, as of the date hereof and the Closing Date and any later date on which Option Shares are to be purchased, as the case may be, of the representations and warranties of the Company and the Selling Shareholders herein, to the performance by the Company and the Selling Shareholders of their respective obligations hereunder and to the following additional conditions:

(a) The Registration Statement shall have become effective not later than 2:00 P.M., San Francisco time, on the date following the date of this Agreement, or such later date and time as shall be consented to in writing by you; and no stop order suspending the effectiveness thereof shall have been issued and no proceedings for that purpose shall have been initiated or, to the knowledge of the Company, any Selling Shareholder or any Underwriter, threatened by the Commission, and any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the satisfaction of Underwriters' Counsel.

(b) All corporate proceedings and other legal matters in connection with this Agreement, the form of Registration Statement and the Prospectus, and the registration, authorization, issue, sale and delivery of the Shares, shall have been reasonably satisfactory to Underwriters' Counsel, and such counsel shall have been furnished with such papers and information as they may reasonably have requested to enable them to pass upon the matters referred to in this Section.

(c) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date, or any later date on which Option Shares are to be purchased, as the case may be, there shall not have been any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse and that makes it, in your sole judgment, impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus.

(d) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, the following opinion of Brobeck, Phleger and Harrison, counsel for the Company and the Selling Shareholders, dated the Closing Date or such later date on which Option Shares are to

be purchased, as the case may be, addressed to the Underwriters and with reproduced copies or signed counterparts thereof for each of the Underwriters, to the effect that:

- (i) The Company and each Significant Subsidiary (as that term is defined in Regulation S-X) has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation;
- (ii) The Company and each Significant Subsidiary has the corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus;
- (iii) The Company and each Significant Subsidiary is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction, if any, in which the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified or be in good standing would not have a material adverse effect on the condition (financial or otherwise), earnings, operations or business of the Company and its subsidiaries considered as one enterprise;
- (iv) The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" as of the dates stated therein, the issued and outstanding shares of capital stock of the Company (including the Selling Shareholder Shares) have been duly and validly issued and are fully paid and nonassessable, and will not have been issued in violation of or subject to any preemptive right, or to such counsel's knowledge, co-sale right, registration right, right of first refusal or other similar right;
- (v) All issued and outstanding shares of capital stock of each subsidiary of the Company have been duly authorized and validly issued and are fully paid and nonassessable, and have not been issued in violation of or subject to any preemptive right, or to such counsel's knowledge, co-sale right, registration right, right of first refusal or other similar right and are owned by the Company free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest;
- (vi) The Firm Shares or the Option Shares, as the case may be, to be issued by the Company pursuant to the terms of this Agreement have been duly authorized and, upon issuance and delivery against payment therefor in accordance with the terms hereof, will be duly and validly issued and fully paid and nonassessable, and will not have been issued in violation of or subject to any preemptive right, co-sale right, registration right, right of first refusal or other similar right;
- (vii) The Company has the corporate power and authority to enter into this Agreement and to issue, sell and deliver to the Underwriters the Shares to be issued and sold by it hereunder;
- (viii) This Agreement has been duly authorized by all necessary corporate action on the part of the Company and has been duly executed and delivered by the Company and, assuming due authorization, execution and delivery by you, is a valid and binding agreement of the Company, enforceable in accordance with its terms, except insofar as indemnification provisions may be limited by applicable law and except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally or by general equitable principles;
- (ix) The Registration Statement has become effective under the Act and, to such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement has

been issued and no proceedings for that purpose have been instituted or are pending or threatened under the Act;

(x) The Registration Statement and the Prospectus, and each amendment or supplement thereto (other than the financial statements (including supporting schedules) and financial data derived therefrom as to which such counsel need express no opinion), as of the effective date of the Registration Statement, complied as to form in all material respects with the requirements of the Act and the applicable Rules and Regulations;

(xi) The information in the Prospectus under the caption "Description of Capital Stock," to the extent that it constitutes matters of law or legal conclusions, has been reviewed by such counsel and is a fair summary of such matters and conclusions; and the forms of certificates evidencing the Common Stock and filed as exhibits to the Registration Statement comply with California law;

(xii) The description in the Registration Statement and the Prospectus of the charter and bylaws of the Company and of statutes are accurate and fairly present the information required to be presented by the Act and the applicable Rules and Regulations;

(xiii) To such counsel's knowledge, there are no agreements, contracts, leases or documents to which the Company is a party of a character required to be described or referred to in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement which are not described or referred to therein or filed as required;

(xiv) The performance of this Agreement and the consummation of the transactions herein contemplated (other than performance of the Company's indemnification obligations hereunder, concerning which no opinion need be expressed) will not (a) result in any violation of the Company's charter or bylaws or (b) to such counsel's knowledge, result in a breach or violation of any of the terms and provisions of, or constitute a default under, any material bond, debenture, note or other evidence of indebtedness, or any material lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument known to such counsel to which the Company is a party or by which its properties are bound, or any applicable material statute, rule or regulation known to such counsel or, to such counsel's knowledge, any order, writ or decree of any court, government or governmental agency or body having jurisdiction over the Company or any of its subsidiaries, or over any of their properties or operations; provided however, that no opinion need be rendered concerning state securities or Blue Sky laws;

(xv) No consent, approval, authorization or order of or qualification with any court, government or governmental agency or body having jurisdiction over the Company or any of its subsidiaries, or over any of their properties or operations is necessary in connection with the consummation by the Company of the transactions herein contemplated, except such as have been obtained under the Act and the Exchange Act or such as may be required under state or other securities or Blue Sky laws in connection with the purchase and the distribution of the Shares by the Underwriters and the rules and regulations of the NASD as they pertain to the fairness of the Underwriters' compensation;

(xvi) To such counsel's knowledge, there are no legal or governmental proceedings pending or threatened against the Company or any of its subsidiaries of a character required to be disclosed in the Registration Statement or the Prospectus by the Act or the Rules and Regulations, other than those described therein;

(xvii) To such counsel's knowledge, neither the Company nor any of its subsidiaries is presently

(a) in violation of its respective charter or bylaws, or (b) in breach of any applicable

material statute, rule or regulation known to such counsel or, to such counsel's knowledge, any order, writ or decree of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries, or over any of their properties or operations;

(xviii) To such counsel's knowledge, except as set forth in the Registration Statement and Prospectus, no holders of Common Stock or other securities of the Company have registration rights with respect to securities of the Company and, except as set forth in the Registration Statement and Prospectus, all holders of securities of the Company having rights known to such counsel to registration of such shares of Common Stock or other securities, because of the filing of the Registration Statement by the Company have, with respect to the offering contemplated thereby, waived such rights or such rights have expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement or have included securities in the Registration Statement pursuant to the exercise of and in full satisfaction of such rights;

(xix) Each Selling Shareholder which is not a natural person has full right, power and authority to enter into and to perform its obligations under the Power of Attorney and Custody Agreement to be executed and delivered by it in connection with the transactions contemplated herein; the Power of Attorney and Custody Agreement of each Selling Shareholder that is not a natural person has been duly authorized by such Selling Shareholder; the Power of Attorney and Custody Agreement of each Selling Shareholder has been duly executed and delivered by or on behalf of such Selling Shareholder; and the Power of Attorney and Custody Agreement of each Selling Shareholder constitutes the valid and binding agreement of such Selling Shareholder, enforceable in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles;

(xx) Each of the Selling Shareholders has full right, power and authority to enter into and to perform its obligations under this Agreement and to sell, transfer, assign and deliver the Shares to be sold by such Selling Shareholder hereunder;

(xxi) This Agreement has been duly authorized by each Selling Shareholder that is not a natural person and has been duly executed and delivered by or on behalf of each Selling Shareholder; and

(xxii) Upon the delivery of and payment for the Shares as contemplated in this Agreement, each of the Underwriters will receive valid marketable title to the Shares purchased by it from such Selling Shareholder, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest. In rendering such opinion, such counsel may assume that the Underwriters are without notice of any defect in the title of the Shares being purchased from the Selling Shareholders.

In addition, such counsel shall state that such counsel has participated in conferences with officials and other representatives of the Company, the Company's patent counsel, the Representatives, Underwriters' Counsel and the independent certified public accountants of the Company, at which such conferences the contents of the Registration Statement and Prospectus and related matters were discussed, and although they have not verified the accuracy or completeness of the statements contained in the Registration Statement or the Prospectus, nothing has come to the attention of such counsel which leads them to believe that, at the time the Registration Statement became effective and at all times subsequent thereto up to and on the Closing Date and on any later date on which Option Shares are to be purchased, the Registration Statement and any amendment or supplement thereto (other than the financial statements including supporting schedules and other financial and statistical information derived therefrom, as to which such counsel need express no comment) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or at the Closing Date or any later date on which the Option Shares are to be

purchased, as the case may be, the Prospectus and any amendment or supplement thereto (except as aforesaid) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Counsel rendering the foregoing opinion may rely as to questions of law not involving the laws of the United States or the State of California upon opinions of local counsel, and as to questions of fact upon representations or certificates of officers of the Company, the Selling Shareholders or officers of the Selling Shareholders (when the Selling Shareholder is not a natural person), and of government officials, in which case their opinion is to state that they are so relying and that they have no knowledge of any material misstatement or inaccuracy in any such opinion, representation or certificate. Copies of any opinion, representation or certificate so relied upon shall be delivered to you, as Representatives of the Underwriters, and to Underwriters' Counsel.

(e) You shall have received on the Closing Date and on any later date on which Option Shares are purchased, as the case may be, the following opinion of Stanley Z. Cole, outside patent counsel for the Company, dated the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, addressed to the Underwriters and with reproduced copies or signed counterparts thereof for each of the Underwriters, stating that such counsel is familiar with the technology used by the Company, its business and the manner of its technology's use thereof and has read the Prospectus, including particularly the portions of the Prospectus referring to patents, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names, copyrights or other proprietary information or materials (herein called Intellectual Property Rights) and to the effect that:

(i) Such counsel has no reason to believe that the Prospectus (a) contains any untrue statement of a material fact with respect to Intellectual Property Rights owned or used by the Company, or the manner of its use thereof, or any claim or possible claim on the part of any person that the Company is infringing any Intellectual Property Rights of any such person or (b) omits to state any material fact relating to Intellectual Property Rights owned or used by the Company, or the manner of its use thereof, or any claim or possible claim of which such counsel has knowledge, that is required to be stated in the Prospectus or is necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(ii) To the best of such counsel's knowledge, and other than as set forth in the Prospectus, the Company has not received notice of any other claims of infringement of any Intellectual Property Rights which are currently pending;

(iii) Other than as set forth in the Prospectus and to the best of such counsel's knowledge, there are no other legal or governmental proceedings relating to any Intellectual Property Rights owned or used by the Company pending against the Company, or any third party, there are no legal or governmental proceedings relating to a third party's Intellectual Property Rights pending against the Company, and no such proceedings are threatened or contemplated by governmental authorities or others;

(iv) Other than as set forth in the Prospectus, such counsel does not know of any contracts or other documents relating to the Intellectual Property Rights of the Company of a character required to be filed as an exhibit to the Registration Statement or required to be described in the Registration Statement or the Prospectus that are not filed or described as required;

(v) Other than as set forth in the Prospectus, to the best of such counsel's knowledge, the Company is not infringing or otherwise violating any Intellectual Property Rights of others and there are no infringements by others of any Intellectual Property Rights owned or used by the Company which, in the judgment of such counsel, could affect materially the use thereof by the Company;

(vi) To the best of such counsel's knowledge, the Company owns or possesses sufficient licenses or other rights to use all necessary Intellectual Property Rights to conduct the business being conducted by the Company as described in the Prospectus;

(vii) Such statements in the Prospectus under the captions "Risk Factors--Patents and Other Intellectual Property Rights" and "Business--Patents and Other Intellectual Property Rights", insofar as such statements constitute summaries of matters of law, are accurate and complete statements or summaries of such matters of law set forth therein;

(viii) As to each patent and patent application listed in Exhibit 1 to this opinion and except as set forth in such Exhibit 1, there is an assignment to the Company. The assignments have been submitted to the United States Patent and Trademark Office ("USPTO") and those assignments have been recorded in the USPTO's title records or have been submitted to the USPTO for recording;

(ix) The Company's U.S. patent applications listed on Exhibit 1 to this opinion have been prepared and filed in the USPTO in a form and with accompanying papers that are acceptable to the USPTO for the purposes of according each such application a filing date and serial number, and of placing each such application in condition for eventual examination on the merits as to patentability. For each such U.S. application an Official Filing Receipt has been received from the USPTO. As to each of such applications, such counsel is not aware of any material defect of form in preparation or filing; and

(x) As to each of the Company's foreign patents and patent applications based on the United States patents or applications listed on Exhibit 1 to this opinion, the applications have either (a) been submitted to patent firms in the respective foreign countries with instructions to file the applications in the patent offices of those countries naming the Company as the owner of record, or
(b) as to certain Patent Cooperation Treaty applications, been submitted directly to the relevant patent office of those countries naming the Company as the owner of record. In each such application, written confirmation has been received that the application has, in fact, been accepted for filing by such patent offices. There is no assurance that the patent offices of the respective countries will not reject the claims of the foreign patent applications as being unpatentable, or that any claims will be allowed without amendment, nor is there any assurance that those patent offices will ultimately conclude that the foreign patent applications meet all requirements for patentability.

(f) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, an opinion of Wilson, Sonsini, Goodrich & Rosati, in form and substance satisfactory to you, with respect to the sufficiency of all such corporate proceedings and other legal matters relating to this Agreement and the transactions contemplated hereby as you may reasonably require, and the Company shall have furnished to such counsel such documents as they may have requested for the purpose of enabling them to pass upon such matters.

(g) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, a letter from Ernst & Young LLP addressed to the Underwriters, dated the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, confirming that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable published Rules and Regulations and based upon the procedures described in such letter delivered to you concurrently with the execution of this Agreement (herein called the "Original Letter"), but carried out to a date not more than five (5) business days prior to the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, (i) confirming, to the extent true, that the statements and conclusions set forth in the Original Letter are accurate as of the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, and (ii) setting forth any revisions and additions to the statements and conclusions set forth in the Original Letter which are necessary to reflect any changes in the facts described in

the Original Letter since the date of such letter, or to reflect the availability of more recent financial statements, data or information. The letter shall not disclose any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse and that makes it, in your sole judgment, impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus. The Original Letter from Ernst & Young LLP shall be addressed to or for the use of the Underwriters in form and substance satisfactory to the Underwriters and shall (i) represent, to the extent true, that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable published Rules and Regulations, (ii) set forth their opinion with respect to their examination of (A) the consolidated balance sheet of the Company as of December 31, 1995 and as of March 30, 1996 and related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three (3) years ended December 31, 1995 and the three (3) months ended March 30, 1996, respectively, and (B) the balance sheet of Lotus as of January 31, 1996 and as of April 30, 1996, and related consolidated statements of operations, shareholders' equity, and cash flows for the twelve (12) months ended January 31, 1996 and for the three (3) months ended April 30, 1996, (iii) state that Ernst & Young LLP has performed the procedure set out in Statement on Auditing Standards No. 71 ("SAS 71") for a review of interim financial information and providing the report of Ernst & Young LLP as described in SAS 71 on the financial statements for each of the quarters in the nine (9) quarter period ended March 30, 1996 (the "Quarterly Financial Statements"), (iv) state that in the course of such review, nothing came to their attention that leads them to believe that any material modifications need to be made to any of the Quarterly Financial Statements in order for them to be in compliance with generally accepted accounting principles consistently applied across the periods presented, (v) state that nothing came to their attention that caused them to believe that the pro forma financial statements included in the Registration Statement and the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X and that the pro forma adjustments thereto have not been properly applied to the historical amounts in the compilation of such statements, and (vi) address other matters agreed upon by Ernst & Young LLP and you. In addition, you shall have received from Ernst & Young LLP a letter addressed to the Company and made available to you for the use of the Underwriters stating that their review of the Company's system of internal accounting controls, to the extent they deemed necessary in establishing the scope of their examination of the Company's consolidated financial statements as of December 31, 1995 did not disclose any weaknesses in internal controls that they considered to be material weaknesses.

(h) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, a certificate of the Company, dated the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, signed by the Chief Executive Officer and Chief Financial Officer of the Company, to the effect that, and you shall be satisfied that:

(i) The representations and warranties of the Company in this Agreement are true and correct, as if made on and as of the Closing Date or any later date on which Option Shares are to be purchased, as the case may be, and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date or any later date on which Option Shares are to be purchased, as the case may be;

(ii) No stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or threatened under the Act;

(iii) When the Registration Statement became effective and at all times subsequent thereto up to the delivery of such certificate, the Registration Statement and the Prospectus, and any amendments or supplements thereto, contained all material information required to be included therein by the Act and the Rules and Regulations and in all material respects conformed to the requirements of the Act and the Rules and Regulations, the Registration Statement, and any amendment or supplement thereto, did not and does not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements

therein not misleading, the Prospectus, and any amendment or supplement thereto, did not and does not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and, since the effective date of the Registration Statement, there has occurred no event required to be set forth in an amended or supplemented Prospectus which has not been so set forth; and

(iv) Subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been (a) any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise, (b) any transaction that is material to the Company and its subsidiaries considered as one enterprise, except transactions entered into in the ordinary course of business, (c) any obligation, direct or contingent, that is material to the Company and its subsidiaries considered as one enterprise, incurred by the Company or its subsidiaries, except obligations incurred in the ordinary course of business, (d) any change in the capital stock or outstanding indebtedness of the Company or any of its subsidiaries that is material to the Company and its subsidiaries considered as one enterprise, (e) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company or any of its subsidiaries, or (f) any loss or damage (whether or not insured) to the property of the Company or any of its subsidiaries which has been sustained or will have been sustained which has a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(i) You shall be satisfied that, and you shall have received a certificate, dated the Closing Date from the Attorneys for each Selling Shareholder to the effect that, as of the Closing Date, they have not been informed that:

(i) The representations and warranties made by such Selling Shareholder herein are not true or correct in any material respect on the Closing Date; or

(ii) Such Selling Shareholder has not complied with any obligation or satisfied any condition which is required to be performed or satisfied on the part of such Selling Shareholder at or prior to the Closing Date.

(j) The Company shall have obtained and delivered to you an agreement from each officer and director of the Company, each Selling Shareholder, and certain other beneficial owners of an aggregate of _____ shares of Common Stock in writing prior to the date hereof that such person will not, during the Lock-up Period, effect the Disposition of any Securities now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, (ii) as a distribution to partners or shareholders of such person, provided that the distributees thereof agree in writing to be bound by the terms of this restriction, or (iii) with the prior written consent of Robertson, Stephens & Company LLC. The foregoing restriction shall have been expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than the such holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Securities. Furthermore, such person will have also agreed and consented to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the Securities held by such person except in compliance with this restriction.

(k) The Company and the Selling Shareholders shall have furnished to you such further certificates and documents as you shall reasonably request (including certificates of officers of the Company, the Selling Shareholders or officers of the Selling Shareholders (when the Selling Shareholder is not a natural person)) as to the accuracy of the representations and warranties of the Company and the Selling Shareholders herein, as to the performance by the Company and the Selling Shareholders of their respective obligations hereunder and as to the other conditions concurrent and precedent to the obligations of the Underwriters hereunder.

All such opinions, certificates, letters and documents will be in compliance with the provisions hereof only if they are reasonably satisfactory to Underwriters' Counsel. The Company and the Selling Shareholders will furnish you with such number of conformed copies of such opinions, certificates, letters and documents as you shall reasonably request.

7. Option Shares.

(a) On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company hereby grants to the several Underwriters, for the purpose of covering over-allotments in connection with the distribution and sale of the Firm Shares only, a nontransferable option to purchase up to an aggregate of 337,500 Option Shares at the purchase price per share for the Firm Shares set forth in Section 3 hereof. Such option may be exercised by the Representatives on behalf of the several Underwriters on one (1) or more occasions in whole or in part during the period of thirty (30) days after the date on which the Firm Shares are initially offered to the public, by giving written notice to the Company. The number of Option Shares to be purchased by each Underwriter upon the exercise of such option shall be the same proportion of the total number of Option Shares to be purchased by the several Underwriters pursuant to the exercise of such option as the number of Firm Shares purchased by such Underwriter (set forth in Schedule A hereto) bears to the total number of Firm Shares purchased by the several Underwriters (set forth in Schedule A hereto), adjusted by the Representatives in such manner as to avoid fractional shares.

Delivery of definitive certificates for the Option Shares to be purchased by the several Underwriters pursuant to the exercise of the option granted by this Section 7 shall be made against receipt of a wire transfer reference number issued by the Federal Reserve System evidencing payment of the purchase price therefor by the several Underwriters by wire transfer of immediately available funds to an account specified in writing by the Company. Such delivery and payment shall take place at the offices of Brobeck, Phleger & Harrison, Two Embarcadero Place, 2200 Geng Road, Palo Alto, California 94303 or at such other place as may be agreed upon among the Representatives and the Company (i) on the Closing Date, if written notice of the exercise of such option is received by the Company at least two (2) full business days prior to the Closing Date, or (ii) on a date which shall not be later than the third (3rd) full business day following the date the Company receives written notice of the exercise of such option, if such notice is received by the Company less than two (2) full business days prior to the Closing Date.

The certificates for the Option Shares to be so delivered will be made available to you at such office or such other location including, without limitation, in New York City, as you may reasonably request for checking at least one (1) full business day prior to the date of payment and delivery and will be in such names and denominations as you may request, such request to be made at least two (2) full business days prior to such date of payment and delivery. If the Representatives so elect, delivery of the Option Shares may be made by credit through full fast transfer to the accounts at the Depository Trust Company designated by the Representatives.

It is understood that you, individually, and not as the Representatives of the several Underwriters, may (but shall not be obligated to) make payment of the purchase price on behalf of any Underwriter or Underwriters whose check or checks shall not have been received by you prior to the date of payment and delivery for the Option Shares to be purchased by such Underwriter or Underwriters. Any such payment by you shall not relieve any such Underwriter or Underwriters of any of its or their obligations hereunder.

(b) Upon exercise of any option provided for in Section 7(a) hereof, the obligations of the several Underwriters to purchase such Option Shares will be subject (as of the date hereof and as of the date of payment and delivery for such Option Shares) to the accuracy of and compliance with the representations, warranties and agreements of the Company herein, to the accuracy of the statements of the Company and officers of the Company made pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder, to the conditions set forth in Section 6 hereof and to the condition that all proceedings taken at or prior to the payment date in connection with the sale and transfer of such Option Shares shall be satisfactory in form and substance to you and to Underwriters' Counsel, and you shall have been furnished with all such documents, certificates and opinions as you may request in order to evidence the accuracy and completeness of any of the representations, warranties or statements, the performance of any of the covenants or agreements of the Company or the satisfaction of any of the conditions herein contained.

8. Indemnification and Contribution.

(a) The Company agrees to indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject (including, without limitation, in its capacity as an Underwriter or as a "qualified independent underwriter" within the meaning of Schedule E of the Bylaws of the NASD), under the Act, the Exchange Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities (or actions in respect thereof) arising out of or based upon (i) any breach of any representation, warranty, agreement or covenant of the Company herein contained, (ii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and agrees to reimburse each Underwriter for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, such Preliminary Prospectus or the Prospectus, or any such amendment or supplement thereto, in reliance upon, and in conformity with, written information relating to any Underwriter furnished to the Company by such Underwriter, directly or through you, specifically for use in the preparation thereof and, provided further, that the indemnity agreement provided in this Section 8(a) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any losses, claims, damages, liabilities or actions based upon any untrue statement or alleged untrue statement of material fact or omission or alleged omission to state therein a material fact purchased Shares, if a copy of the Prospectus in which such untrue statement or alleged untrue statement or omission or alleged omission was corrected had not been sent or given to such person within the time required by the Act and the Rules and Regulations, unless such failure is the result of noncompliance by the Company with Section 4(d) hereof.

The indemnity agreement in this Section 8(a) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls any Underwriter within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which the Company may otherwise have.

(b) Each Selling Shareholder, severally and not jointly, agrees to indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject (including, without limitation, in its capacity as an Underwriter or as a "qualified independent underwriter" within the meaning of Schedule E or the Bylaws of the NASD) under the Act, the Exchange Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities (or actions in respect thereof) arising out of or based upon (i) any breach of any representation, warranty, agreement or covenant of such Selling Shareholder herein contained, (ii) any untrue statement or alleged untrue statement of any

material fact contained in the Registration Statement or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, in the case of subparagraphs (ii) and (iii) of this Section 8(b) to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company or such Underwriter by such Selling Shareholder, directly or through such Selling Shareholder's representatives, specifically for use in the preparation thereof, and agrees to reimburse each Underwriter for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement provided in this Section 8(b) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any losses, claims, damages, liabilities or actions based upon any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state therein a material fact purchased Shares, if a copy of the Prospectus in which such untrue statement or alleged untrue statement or omission or alleged omission was corrected had not been sent or given to such person within the time required by the Act and the Rules and Regulations, unless such failure is the result of noncompliance by the Company with Section 4(d) hereof.

The indemnity agreement in this Section 8(b) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls any Underwriter within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which such Selling Shareholder may otherwise have.

(c) Each Underwriter, severally and not jointly, agrees to indemnify and hold harmless the Company and each Selling Shareholder against any losses, claims, damages or liabilities, joint or several, to which the Company or such Selling Shareholder may become subject under the Act, the Exchange Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities (or actions in respect thereof) arising out of or based upon (i) any breach of any representation, warranty, agreement or covenant of such Underwriter herein contained, (ii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, in the case of subparagraphs (ii) and (iii) of this Section 8(c) to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter, directly or through you, specifically for use in the preparation thereof, and agrees to reimburse the Company and each such Selling Shareholder for any legal or other expenses reasonably incurred by the Company and each such Selling Shareholder in connection with investigating or defending any such loss, claim, damage, liability or action.

The indemnity agreement in this Section 8(c) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each officer of the Company who signed the Registration Statement and each director of the Company, each Selling Shareholder and each person, if any, who controls the Company or any Selling Shareholder within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which each Underwriter may otherwise have.

(d) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against any indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section 8. In case any such action is brought against any indemnified

party, and it notified the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it shall elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party; provided, however, that if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of the indemnifying party's election so to assume the defense of such action and approval by the indemnified party of counsel, the indemnifying party will not be liable to such indemnified party under this Section 8 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel (together with appropriate local counsel) approved by the indemnifying party representing all the indemnified parties under Section 8(a), 8(b) or 8(c) hereof who are parties to such action), (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of the action or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party. In no event shall any indemnifying party be liable in respect of any amounts paid in settlement of any action unless the indemnifying party shall have approved the terms of such settlement; provided that such consent shall not be unreasonably withheld. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnification could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(e) In order to provide for just and equitable contribution in any action in which a claim for indemnification is made pursuant to this Section 8 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 8 provides for indemnification in such case, all the parties hereto shall contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that, except as set forth in Section 8(f) hereof, the Underwriters severally and not jointly are responsible pro rata for the portion represented by the percentage that the underwriting discount bears to the initial public offering price, and the Company and the Selling Shareholders are responsible for the remaining portion, provided, however, that (i) no Underwriter shall be required to contribute any amount in excess of the amount by which the underwriting discount applicable to the Shares purchased by such Underwriter exceeds the amount of damages which such Underwriter has been otherwise required to pay and (ii) no person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. The contribution agreement in this Section 8(e) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls any Underwriter, the Company or any Selling Shareholder within the meaning of the Act or the Exchange Act and each officer of the Company who signed the Registration Statement and each director of the Company.

(f) The liability of each Selling Shareholder under the representations, warranties and agreements contained herein and under the indemnity agreements contained in the provisions of this Section 8 shall be limited to an amount equal to the initial public offering price of the Selling Shareholder Shares sold by such Selling Shareholder to the Underwriters minus the amount of the underwriting discount paid thereon to the Underwriters by such Selling Shareholder. The Company and such Selling Shareholders may agree, as among themselves and without limiting the rights of the Underwriters under this Agreement, as to the respective amounts of such liability for which they each shall be responsible.

(g) The parties to this Agreement hereby acknowledge that they are sophisticated business persons who were represented by counsel during the negotiations regarding the provisions hereof including, without limitation, the provisions of this Section 8, and are fully informed regarding said provisions. They further acknowledge that the provisions of this Section 8 fairly allocate the risks in light of the ability of the parties to investigate the Company and its business in order to assure that adequate disclosure is made in the Registration Statement and Prospectus as required by the Act and the Exchange Act.

9. Representations, Warranties, Covenants and Agreements to Survive Delivery. All representations, warranties, covenants and agreements of the Company, the Selling Shareholders and the Underwriters herein or in certificates delivered pursuant hereto, and the indemnity and contribution agreements contained in Section 8 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter within the meaning of the Act or the Exchange Act, or by or on behalf of the Company or any Selling Shareholder or any of their officers, directors or controlling persons within the meaning of the Act or the Exchange Act, and shall survive the delivery of the Shares to the several Underwriters hereunder or termination of this Agreement.

10. Substitution of Underwriters. If any Underwriter or Underwriters shall fail to take up and pay for the number of Firm Shares agreed by such Underwriter or Underwriters to be purchased hereunder upon tender of such Firm Shares in accordance with the terms hereof, and if the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters so agreed but failed to purchase does not exceed 10% of the Firm Shares, the remaining Underwriters shall be obligated, severally in proportion to their respective commitments hereunder, to take up and pay for the Firm Shares of such defaulting Underwriter or Underwriters.

If any Underwriter or Underwriters so defaults and the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters agreed but failed to take up and pay for exceeds 10% of the Firm Shares, the remaining Underwriters shall have the right, but shall not be obligated, to take up and pay for (in such proportions as may be agreed upon among them) the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase. If such remaining Underwriters do not, at the Closing Date, take up and pay for the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase, the Closing Date shall be postponed for twenty-four (24) hours to allow the several Underwriters the privilege of substituting within twenty-four (24) hours (including non-business hours) another underwriter or underwriters (which may include any nondefaulting Underwriter) satisfactory to the Company. If no such underwriter or underwriters shall have been substituted as aforesaid by such postponed Closing Date, the Closing Date may, at the option of the Company, be postponed for a further twenty-four (24) hours, if necessary, to allow the Company the privilege of finding another underwriter or underwriters, satisfactory to you, to purchase the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase. If it shall be arranged for the remaining Underwriters or substituted underwriter or underwriters to take up the Firm Shares of the defaulting Underwriter or Underwriters as provided in this

Section 10, (i) the Company shall have the right to postpone the time of delivery for a period of not more than seven (7) full business days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees promptly to file any amendments to the Registration Statement, supplements to the Prospectus or other such documents which may thereby be made necessary, and (ii) the respective number of Firm Shares to be purchased by the remaining Underwriters and substituted underwriter or underwriters shall be taken as the basis of their underwriting obligation. If the remaining Underwriters shall not take up and pay for all such Firm Shares so agreed to be purchased by the defaulting Underwriter or Underwriters or substitute another underwriter or underwriters as aforesaid and the Company shall not find or shall not elect to seek another underwriter or underwriters for such Firm Shares as aforesaid, then this Agreement shall terminate.

In the event of any termination of this Agreement pursuant to the preceding paragraph of this Section 10, neither the Company nor any Selling Shareholder shall be liable to any Underwriter (except as provided in Sections 5 and 8 hereof) nor shall any Underwriter (other than an Underwriter who shall have failed, otherwise than for some reason permitted under this Agreement, to purchase the number of Firm Shares agreed by such Underwriter to be purchased hereunder, which Underwriter shall remain liable to the Company, the Selling

Shareholders and the other Underwriters for damages, if any, resulting from such default) be liable to the Company or any Selling Shareholder (except to the extent provided in Sections 5 and 8 hereof).

The term "Underwriter" in this Agreement shall include any person substituted for an Underwriter under this Section 10.

11. Effective Date of this Agreement and Termination.

(a) This Agreement shall become effective at the earlier of (i) 6:30 A.M., San Francisco time, on the first full business day following the effective date of the Registration Statement, or (ii) the time of the initial public offering of any of the Shares by the Underwriters after the Registration Statement becomes effective. The time of the initial public offering shall mean the time of the release by you, for publication, of the first newspaper advertisement relating to the Shares, or the time at which the Shares are first generally offered by the Underwriters to the public by letter, telephone, telegram or teletype, whichever shall first occur. By giving notice as set forth in Section 12 before the time this Agreement becomes effective, you, as Representatives of the several Underwriters, or the Company, may prevent this Agreement from becoming effective without liability of any party to any other party, except as provided in Sections 4(i), 5 and 8 hereof.

(b) You, as Representatives of the several Underwriters, shall have the right to terminate this Agreement by giving notice as hereinafter specified at any time on or prior to the Closing Date or on or prior to any later date on which Option Shares are to be purchased, as the case may be, (i) if the Company or any Selling Shareholder shall have failed, refused or been unable to perform any agreement on its part to be performed, or because any other condition of the Underwriters' obligations hereunder required to be fulfilled is not fulfilled, including, without limitation, any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse, or (ii) if additional material governmental restrictions, not in force and effect on the date hereof, shall have been imposed upon trading in securities generally or minimum or maximum prices shall have been generally established on the New York Stock Exchange or on the American Stock Exchange or in the over the counter market by the NASD, or trading in securities generally shall have been suspended on either such exchange or in the over the counter market by the NASD, or if a banking moratorium shall have been declared by federal, New York or California authorities, or (iii) if the Company or any Significant Subsidiary shall have sustained a loss by strike, fire, flood, earthquake, accident or other calamity of such character as to interfere materially with the conduct of the business and operations of the Company regardless of whether or not such loss shall have been insured, or (iv) if there shall have been a material adverse change in the general political or economic conditions or financial markets as in your reasonable judgment makes it inadvisable or impracticable to proceed with the offering, sale and delivery of the Shares, or (v) if there shall have been an outbreak or escalation of hostilities or of any other insurrection or armed conflict or the declaration by the United States of a national emergency which, in the reasonable opinion of the Representatives, makes it impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus. In the event of termination pursuant to subparagraph (i) above, the Company and the Selling Shareholders shall remain obligated to pay costs and expenses pursuant to Sections 4(i), 5 and 8 hereof. Any termination pursuant to any of subparagraphs (ii) through (v) above shall be without liability of any party to any other party except as provided in Sections 5 and 8 hereof.

If you elect to prevent this Agreement from becoming effective or to terminate this Agreement as provided in this Section 11, you shall promptly notify the Company by telephone, teletype or telegram, in each case confirmed by letter. If the Company shall elect to prevent this Agreement from becoming effective, the Company shall promptly notify you by telephone, teletype or telegram, in each case, confirmed by letter.

12. Notices. All notices or communications hereunder, except as herein otherwise specifically provided, shall be in writing and if sent to you shall be mailed, delivered, telegraphed (and confirmed by letter) or teletyped (and confirmed by letter) to you c/o Robertson, Stephens & Company, LLC, 555 California Street, Suite 2600, San Francisco, California 94104, teletypewriter number (415) 781-0278, Attention: General Counsel, with a copy to

Wilson, Sonsini, Goodrich & Rosati, Professional Corporation, 650 Page Mill Road, Palo Alto, CA 94304, telecopier number (415) 493-6811, Attention: Alan K. Austin; if sent to the Company, such notice shall be mailed, delivered, telegraphed (and confirmed by letter) or telecopied (and confirmed by letter) to 3550 Bassett Street, Santa Clara, California 95054, telecopier number (408) 727-5739, Attention: Norman H. Pond, Chief Executive Officer, with a copy to Brobeck, Phleger & Harrison, Two Embarcadero Place, 2200 Geng Road, Palo Alto, California 94303, telecopier number (415) 496-2885, Attention: Gari L. Cheever; if sent to one or more of the Selling Shareholders, such notice shall be sent mailed, delivered, telegraphed (and confirmed by letter) or telecopied (and confirmed by letter) to [NAME OF ATTORNEY-IN-FACT FOR SELLING SHAREHOLDERS], as Attorney-in-Fact for the Selling Shareholders, at [ADDRESS OF ATTORNEY-IN-FACT], telecopier number (____) _____.

13. Parties. This Agreement shall inure to the benefit of and be binding upon the several Underwriters and the Company and the Selling Shareholders and their respective executors, administrators, successors and assigns. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person or entity, other than the parties hereto and their respective executors, administrators, successors and assigns, and the controlling persons within the meaning of the Act or the Exchange Act, officers and directors referred to in Section 8 hereof, any legal or equitable right, remedy or claim in respect of this Agreement or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and their respective executors, administrators, successors and assigns and said controlling persons and said officers and directors, and for the benefit of no other person or entity. No purchaser of any of the Shares from any Underwriter shall be construed a successor or assign by reason merely of such purchase.

In all dealings with the Company and the Selling Shareholders under this Agreement, you shall act on behalf of each of the several Underwriters, and the Company and the Selling Shareholders shall be entitled to act and rely upon any statement, request, notice or agreement made or given by you jointly or by Robertson, Stephens & Company LLC on behalf of you.

14. Applicable Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

15. Counterparts. This Agreement may be signed in several counterparts, each of which will constitute an original.

If the foregoing correctly sets forth the understanding among the Company and the several Underwriters, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among the Company and the several Underwriters.

Very truly yours,

INTEVAC, INC.

By

Name:

Title:

SELLING SHAREHOLDERS

By

Attorney-in-Fact for the Selling Shareholders named in Schedule B hereto

Accepted as of the date first above written:

**ROBERTSON, STEPHENS & COMPANY LLC
HAMBRECHT & QUIST LLC**

On their behalf and on behalf of each of the several Underwriters named in Schedule A hereto.

ROBERTSON, STEPHENS & COMPANY LLC

By ROBERTSON, STEPHENS & COMPANY GROUP, L.L.C.

By

Authorized Signatory

SCHEDULE B

	Number of Company Shares To Be Sold
Intevac, Inc.	1,500,000
Total	1,500,000

Name of Selling Shareholder	Number of Selling Shareholder Shares To Be Sold
Kaiser Aerospace and Electronics Corporation	600,000
Norman H. Pond	129,378
John Lester Hughes	10,000
Charles B. Eddy, III	9,269
Verle W. Aebi	1,353
Total	750,000

[BROBECK PHLEGER & HARRISON LLP LETTERHEAD]

June 7, 1996

Intevac, Inc.
3550 Bassett Street
Santa Clara, CA 95054

Re: Registration Statement on Form S-1

Ladies and Gentlemen:

We have examined the Registration Statement on Form S-1 to be filed by you with the Securities and Exchange Commission (the "Commission") on June 7, 1996 (the "Registration Statement"), in connection with the registration under the Securities Act of 1933, as amended, of 2,250,000 shares of your Common Stock (the "Shares"). As your counsel in connection with this transaction, we have examined the proceedings taken and are familiar with the proceedings proposed to be taken by you in connection with the sale and issuance of the Shares.

It is our opinion that, upon conclusion of the proceedings being taken or contemplated by us, as your counsel, to be taken prior to the issuance of the Shares, such Shares, when issued and sold in the manner described in the Registration Statement, will be legally and validly issued, fully paid and nonassessable.

We consent to the use of this opinion as an exhibit to such Registration Statement, and further consent to the use of our name wherever appearing in such Registration Statement, including the prospectus constituting a part thereof, and any amendment thereto.

Very truly yours,

/s/ BROBECK, PHLEGER & HARRISON LLP

BROBECK, PHLEGER & HARRISON LLP

STOCK PURCHASE AGREEMENT

DATED JUNE 6, 1996

BY AND AMONG

LOTUS TECHNOLOGIES, INC.,

LEWIS T. LIPTON, TRUSTEE FOR THE LIPTON SEPARATE PROPERTY TRUST

DATED JANUARY 12, 1993,

DENNIS C. STARK, STEVEN ROMINE

AND

INTEVAC, INC.

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SCHEDULES AND EXHIBITS

Schedules:

Schedule A	Schedule of Selling Shareholders
Schedule B	Schedule of Exceptions
Schedule C	Schedule of Material Contracts

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Exhibit A	Selling Shareholder Non-Competition and Non-Disclosure Agreement
Exhibit B	Opinion of Company Counsel
Exhibit C	Opinion of Selling Shareholder Counsel
Exhibit D	Opinion of Purchaser Counsel

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "Agreement") is made as of June 6, 1996, by and among Lotus Technologies, Inc., a California corporation (the "Company"), Lewis T. Lipton, Trustee for the Lipton Separate Property Trust dated January 12, 1993 ("Mr. Lipton"), Dennis C. Stark, an individual ("Mr. Stark"), Steven Romine, an individual ("Mr. Romine") and Intevac, Inc., a California corporation (the "Purchaser").

THE PARTIES HEREBY AGREE AS FOLLOWS:

1. Purchase and Sale of Stock.

1.1 Purchase and Sale. Subject to the terms and conditions of this Agreement, at the Closing (as defined below) the Purchaser shall purchase from each of Mr. Lipton, Mr. Stark and Mr. Romine (collectively, the "Selling Shareholders" and each, individually, a "Selling Shareholder") that number of shares of Lotus Technologies, Inc. common stock, without par value (the "Common Stock"), set forth opposite each Selling Shareholder's name on Schedule A hereto for an aggregate price of \$8,025,000 (the "Purchase Price").

1.2 Closing. The purchase and sale of the Common Stock shall take place at the offices of Brobeck, Phleger & Harrison LLP, Two Embarcadero Place, 2200 Geng Road, Palo Alto, California 94303, at 11:00 a.m., on June 6, 1996 or at such other location and time as the Company, the Selling Shareholders and the Purchaser mutually agree upon (which time and place are designated as the "Closing"). At the Closing, each Selling Shareholder shall deliver to the Purchaser a certificate representing the Common Stock that the Purchaser is purchasing from such Selling Shareholder, properly endorsed in blank for transfer and accompanied by a duly executed stock power in proper form, against delivery to such Selling Shareholder by the Purchaser of a check or a bank wire transfer in the amount of the purchase price therefor.

2. Representations and Warranties of the Company and the Selling Shareholders. In this Agreement, any reference to a "Material Adverse Effect" with respect to any entity means any event, change or effect that is materially adverse to the condition (financial or otherwise), properties, assets, liabilities, business, operations, results of operations or prospects of such entity, taken as a whole. Each of the Company and the Selling Shareholders hereby represents and warrants to the Purchaser that, except as set forth on a Schedule of Exceptions attached hereto as Schedule B specifically identifying the relevant Section or subsection hereof:

1.

2.1 Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of California and has all requisite corporate power and authority to carry on its business as now conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a Material Adverse Effect on the Company.

2.2 Capitalization.

(a) Common Stock. The authorized capital of the

Company consists of 10,000,000 shares of Common Stock, 3,780,000 shares of which are issued and outstanding.

(b) Rights. There are no outstanding options,

warrants, subscriptions, rights (including conversion or preemptive rights or first refusal rights) or agreements for the purchase or acquisition from the Company, or from any shareholder, of any shares of the Company's capital stock or securities convertible into its capital stock. Neither the Company nor any Selling Shareholder is a party or subject to any agreement or understanding, and there is no agreement or understanding between any persons and/or entities, that affects or relates to the voting or giving of written consents with respect to any security or by a director of the Company.

(c) Holders. All holders of securities of the Company

and all persons who have a right to hold securities of the Company are set forth by name and the type and amount of securities and/or other rights so held in Schedule A.

2.3 Subsidiaries. The Company does not presently own or control, and has never owned or controlled, directly or indirectly, any interest in any other corporation, association, partnership or other business or investment entity.

2.4 Authorization. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement and the transactions contemplated herein, and the performance of all obligations of the Company hereunder, has been taken or will be taken prior to the Closing. This Agreement has been duly executed and delivered by the Company and constitutes a valid and legally binding obligation of the Company, enforceable in accordance with its terms, subject, as to the enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting creditors' rights generally, to general equitable principles and to limitations on the enforceability of indemnification provisions as applied to certain types of claims arising hereafter, if any, under the federal securities law.

2.5 Common Stock. The outstanding shares of Common Stock are duly and validly authorized and issued, are fully paid and nonassessable, and were issued in compliance with all applicable federal and state securities laws.

2.6 Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, regional, state or local governmental authority on the part of the Company is required in connection with the consummation of the transactions contemplated by this Agreement. Based in part on the representations of the Purchaser in Sections 4.3 and 4.5 of this Agreement, the offer and sale of the Common Stock pursuant to the terms of this Agreement are exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended (the "Act").

2.7 Returns. The Company has not had any of its products returned by a purchaser or user thereof, other than for minor, nonrecurring warranty problems. The Company is not aware of any pending warranty claims other than those that arise in the ordinary course of business and which will not require a bulk recall or modification of products currently sold to customers.

2.8 Litigation. There are no actions, suits, proceedings and investigations pending or, to the Company's or the Selling Shareholders' knowledge, currently threatened against the Company. There is no action, suit, proceeding, or investigation pending or, to the Company's or the Selling Shareholders' knowledge, currently threatened against the Company which questions the validity of this Agreement or the right of the Company to enter into such Agreement, or to consummate the transactions contemplated hereby, or which might result, either individually or in the aggregate, in a Material Adverse Effect on the Company, or any change in the current equity ownership of the Company. The Company is not a party to or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no legal action, lawsuit, legal proceeding or investigation related to any of the foregoing by the Company currently pending or which the Company intends to initiate.

2.9 Intellectual Property.

(a) The Company owns, or licenses or otherwise possesses legally enforceable rights to use all patents, trademarks, trade names, service marks, copyrights, and any applications therefor, schematics, technology, know-how, trade secrets, inventory, ideas, algorithms, processes, computer software programs or applications (in both source code and object code form), and tangible or intangible proprietary information or material ("Intellectual Property") that are used in the business of the Company as currently conducted, except to the extent that the failure to have such rights have not had and would not reasonably be expected to have a Material Adverse Effect on the Company.

(b) The Schedule of Exceptions lists (i) all patents and patent applications and all registered and unregistered trademarks, trade names, service marks, and copyrights, which the Company considers to be material its business and included in the Intellectual Property, including the jurisdictions in which each such Intellectual Property right has been issued or registered or in which any application for such issuance and registration has been filed, (ii) all material licenses, sublicenses and other agreements as to which the

Company is a party and pursuant to which any person is authorized to use any Intellectual Property, and (iii) all material licenses, sublicenses and other agreements as to which the Company is a party and pursuant to which the Company is authorized to use any third party patents, trademarks or registered copyrights, including software ("Third Party Intellectual Property Rights") which are incorporated in, are, or form a part of any Company product that is material to its business.

(c) To the best of the Company's knowledge, there is no material unauthorized use, disclosure, infringement or misappropriation of any Intellectual Property rights of the Company, any trade secret material to the Company, or any Intellectual Property right of any third party to the extent licensed by or through the Company, by any third party, including any employee or former employee of the Company. The Company has not entered into any agreement to indemnify any other person against any charge of infringement of any Intellectual Property, other than indemnification provisions contained in purchase orders arising in the ordinary course of business.

(d) The Company is not, nor will it as a result of the execution and delivery of this Agreement or the performance of its obligations under this Agreement, be in breach of any license, sublicense or other agreement relating to the Intellectual Property or Third Party Intellectual Property Rights, the breach of which would have a Material Adverse Effect on the Company.

(e) All patents and registered trademarks, service marks and copyrights held by the Company and listed on the Schedule of Exceptions are valid and existing. The Company (i) has not been sued in any suit, action or proceeding which involves a claim of infringement of any patents, trademarks, service marks, copyrights or violation of any trade secret or other proprietary right of any third party and (ii) has not brought any action, suit or proceeding for infringement of Intellectual Property or breach of any license or agreement involving Intellectual Property against any third party. To the best of the Company's knowledge, the manufacture, marketing, licensing or sale of the Company 's products does not infringe any patent, trademark, service mark, copyright, trade secret or other proprietary right of any third party, except where such infringement would not have a Material Adverse Effect on the Company.

(f) The Company has secured valid written assignments from all consultants and employees who contributed to the creation or development of Intellectual Property of the rights to such contributions that the Company does not already own by operation of law.

(g) The Company has taken reasonable and appropriate steps to protect and preserve the confidentiality of all Intellectual Property not otherwise protected by patents or copyright ("Confidential Information"). All use,

disclosure or appropriation of Confidential Information owned by the Company by or to a third party has been pursuant to the terms of a written agreement between the Company and such third party. All use, disclosure or appropriation of Confidential Information not owned by the Company has been pursuant to the terms of a written agreement between the Company and the owner of such Confidential Information, or is otherwise lawful.

2.10 Proprietary Information and Inventions Agreements. Each employee, officer, director and consultant of the Company has executed a non-disclosure agreement in the form provided to counsel to the Purchaser. The Company is not aware that any of such employees, officers, directors or consultants are in material violation thereof, and the Company will use its best efforts to prevent any such violation.

2.11 Compliance With Other Instruments. The Company is not in violation of any provision of its Articles of Incorporation or Bylaws or in violation or default of any provision of any instrument, judgment, order, writ, decree or contract to which it is a party or by which it is bound or any provision of any federal or state statute, rule or regulation applicable to the Company, which violation or default would have a Material Adverse Effect on the Company. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not result in any such violation or default or require any consent under or be in conflict with or constitute, with or without the passage of time and giving of notice, either a violation or default under any such provision, instrument, judgment, order, writ, decree or contract, or an event which results in the creation of any lien, charge or encumbrance upon any assets of the Company where any such event would have a Material Adverse Effect on the Company.

2.12 Agreements; Action.

(a) Any agreements, understandings, instruments, contracts or proposed transactions to which the Company is a party or by which it is bound which involve obligations of or payments to the Company in excess of \$5,000 are listed on Schedule C hereto.

(b) No defaults exist with respect to the Company (or, to the Company's knowledge, any other party) under any contract or agreement to which the Company is a party that would have a Material Adverse Effect on the Company, either individually or in the aggregate.

(c) Since May 17, 1996, dividends and distributions made by the Company to its shareholders and bonuses paid by the Company to its employees have not exceeded, in the aggregate \$350,000.

(d) The Company has no obligation and is not a party to a contract, oral or written, which would result in the payment of a bonus to any employee or shareholder subsequent to the date hereof.

2.13 Disclosure. The Company has fully provided the Purchaser and the Purchaser's legal counsel with all the information in the Company's possession that the Purchaser has requested in determining whether to purchase the Common Stock offered by the Selling Shareholders. Neither Section 2 of this Agreement nor any schedule or exhibit attached to this Agreement nor any certificate delivered pursuant hereto that, in any such case, has been or will be provided by or on behalf of the Company contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements made herein or therein not misleading in light of the circumstances under which they were made.

2.14 Title to Property and Assets. The Company owns its property and assets free and clear of all mortgages, liens, loans and encumbrances, except such encumbrances and liens which arise in the ordinary course of business and do not materially impair the Company's ownership or use of such property or assets. With respect to the property and assets it leases, the Company is in compliance with such leases in all material respects and holds a valid leasehold interest free of any material liens, claims or encumbrances. The property and assets of the Company that are used in the operation of its business are in good operating condition and repair.

2.15 Financial Statements. The Company has delivered to Purchaser its audited financial statements for the fiscal year ended January 31, 1996, and its unaudited financial statements (balance sheet, statement of operations and statement of cash flows) at, and for the two-month period ended March 31, 1996 (collectively, the "Financial Statements"). The Financial Statements have been prepared in accordance with generally accepted accounting principles (except that the unaudited financial statements do not have notes thereto) applied on a consistent basis throughout the periods indicated and with each other. The Financial Statements are complete and correct in all material respects and accurately set out and describe the financial condition and operating results of the Company as of the dates, and for the periods, indicated therein, subject to normal year-end audit adjustments. The Company's net book value (total assets minus total liabilities) as of the date hereof is not less than \$0.

2.16 Changes. Since March 31, 1996, except as permitted by Section 2.12(c), there has not been:

(a) any change in the financial condition or operating results of the Company from that reflected in the Financial Statements, except changes in the ordinary course of business which have not been, in the aggregate, materially adverse;

(b) any damage, destruction or loss, whether or not covered by insurance, which would have a Material Adverse Effect on the Company (as its business is currently conducted);

(c) any sale, exchange, or other disposition of the Company's assets or rights, other than in the ordinary course of business, or any waiver by the Company of a valuable right or of a material debt owed to it, or any material change or amendment to or default under a material contract or arrangement by which the Company or any of its assets or properties is bound or subject;

(d) any declaration, authorization or payment of any dividend or other distribution of the assets of the Company, or any agreement to declare, authorize or pay any such dividend or distribution;

(e) any satisfaction or discharge of any lien, claim or encumbrance or payment of any obligation by the Company, except in the ordinary course of business and which is not material to the assets, properties, financial condition, operating results or business of the Company;

(f) any commitments entered into by the Company involving capital expenditures in excess of \$5,000, or any debt obligation or liability (whether absolute or contingent), incurred by the Company in excess of \$5,000 or that would be required under generally accepted accounting principles to be reflected in the Company's financial statements (whether or not presently outstanding) except current liabilities incurred, and obligations under agreements entered into, in the ordinary course of business;

(g) any increase in the compensation or rate of compensation or commissions payable or to become payable by the Company to any of its directors or officers, or any payment of any bonus, profit-sharing amount or other extraordinary compensation to any such person or any change in any then existing bonus, profit-sharing, retirement or other similar plan, agreement or arrangement or any adoption of or entry into any new bonus, profit-sharing, group life or health insurance, or other similar plan, agreement or arrangement;

(h) any loans made by the Company to any of the Company's directors, officers or employees, or any of their affiliates, other than travel advances made in the ordinary course of business;

(i) to the Company's and the Selling Shareholders' knowledge, any other event or condition internal to the Company (e.g., other than external events or conditions, including without limitation, market conditions and trends, competitive product announcements, etc.) of any character which might have a Material Adverse Effect on the Company (as its business is currently conducted);

(j) any material increase in the returns or rates of returns by consumers or distributors of any products of the Company, any termination or failure to renew by a distributor of any material contract or arrangement for the sale or distribution of

the Company's products or any material and adverse change in the terms of any such contracts or arrangements; or

(k) any termination or failure to renew by a supplier of any material contract or arrangement for the sale or supply of parts necessary for the manufacture of the Company's products or any material and adverse change in the terms of any such contract.

2.17 Employee Benefit Plans. The Company does not have any Employee Benefit Plan as defined in the Employee Retirement Income Security Act of 1974, as amended.

2.18 Taxes. The Company has filed all income tax returns (federal, state, foreign and local) required to be filed by it, and all income taxes shown to be due and payable on such returns or on any assessments received by the Company and all other taxes (federal, state, foreign and local) due and payable by the Company on or before the date hereof have been paid. The income tax returns filed by the Company are true and correct in all material respects. There are no agreements, waivers or other arrangements providing for an extension of time with respect to the assessment of any tax or deficiency against the Company, nor are there any actions, suits, proceedings, investigations or claims now pending against the Company in respect of any tax or assessment, or, to the Company's knowledge, any matters under discussion with any federal, state, foreign or local authority relating to any taxes or assessments, or any claims for additional taxes or assessments asserted by any such authority. The provisions made for income taxes on the Financial Statements are expected to be sufficient for the payment of all unpaid federal, state, foreign and local income taxes of the Company for all periods prior to such date.

2.19 Bank Accounts. The Schedule of Exceptions sets forth the names and locations of all banks, trust companies, savings and loan associations and other financial institutions at which the Company maintains accounts of any nature and the names of all persons authorized to draw thereon or make withdrawals therefrom.

2.20 Insurance. The Company has in full force and effect fire and casualty insurance policies as listed in the Schedule of Exceptions. The Company has in full force and effect products liability and errors and omissions insurance in amounts set forth in the Schedule of Exceptions.

2.21 Minute Books. The minute books of the Company contain a record of all meetings of directors and shareholders since the time of incorporation and reflect all material transactions referred to in such minutes accurately in all material respects.

2.22 Labor Agreements and Actions. The Company is not bound by or subject to any written or oral, express or implied, contract, commitment or arrangement with any labor union, and no labor union has requested or has sought to represent any of the employees, representatives or agents of the Company.

2.23 Brokers' or Finders' Fees. The Company has not incurred and will not incur, directly or indirectly, any liability for brokers' or finders' fees, agents' commissions or other similar charges in connection with this Agreement or the transactions contemplated hereby other than the fee to be paid by the Purchaser to Broadview Associates, L.P. ("Broadview") in connection with the transactions contemplated by this Agreement.

2.24 Accounts Receivable. Subject to any reserves set forth in the Financial Statements, the accounts receivable shown on the Financial Statements represent and will represent bona fide claims against debtors for sales and other charges, and are not subject to discount except for normal cash and immaterial trade discounts. The amount carried for doubtful accounts and allowances disclosed in the Financial Statements is sufficient to provide for any losses which may be sustained on realization of the receivables.

2.25 Related Party Transactions. No employee, officer or director of the Company or member of his or her immediate family is indebted to the Company, nor is the Company indebted (or committed to make loans or extend or guarantee credit) to any of such persons. None of such persons has any direct or indirect ownership interest in any firm or corporation with which the Company is affiliated or with which the Company has a business relationship, or any firm or corporation that competes with the Company, except that the employees, officers or directors of the Company and members of their immediate families may own stock in publicly traded companies that may compete with the Company. No member of the immediate family of any officer or director of the Company is directly interested in any material contract with the Company.

2.26 Manufacturing and Marketing. The Company has not granted rights to manufacture, produce, assemble, license, market or to sell its products to any other person and is not bound by any agreement that affects the Company's exclusive right to develop, manufacture, assemble, distribute, market or sell its products.

2.27 Inventory. The inventories shown on the Financial Statements or thereafter acquired by the Company consisted of items of a quantity and quality usable or salable in the ordinary course of business. Since March 31, 1996, the Company has continued to replenish inventories in a normal and customary manner consistent with past practices. The Company has not received written or oral notice that it will experience in the foreseeable future any difficulty in obtaining, in the desired quantity and quality and at a reasonable price and upon reasonable terms and conditions, the raw materials, supplies or component products required for the manufacture, assembly or production of its products. The values at which inventories are carried reflect the inventory valuation policy of the Company, which is consistent with its past practice and in accordance with generally accepted accounting principles applied on a consistent basis. Since March 31, 1996, due provision was made on the books of the Company in the ordinary course of business consistent with past practices to provide for all slow-moving, obsolete, or unusable inventories to their estimated useful or scrap values and such inventory reserves are adequate to provide for such slow-moving, obsolete or unusable inventory and inventory shrinkage.

2.28 Customers and Suppliers. As of the date hereof, no customer which individually accounted for more than 5% of the Company's gross revenues during the 12 month period preceding the date hereof, and no supplier of the Company, has canceled or otherwise terminated, or made any written threat to the Company to cancel or otherwise terminate its relationship with the Company, or has at any time on or after March 31, 1996 decreased materially its services or supplies to the Company in the case of any such supplier, or its usage of the services or products of the Company in the case of such customer, and to the Company's knowledge, no such supplier or customer intends to cancel or otherwise terminate its relationship with the Company or to decrease materially its services or supplies to the Company or its usage of the services or products of the Company, as the case may be. The Company has not engaged in any fraudulent conduct with respect to any customer or supplier of the Company.

2.29 Employee Matters. There are no claims pending, or to the Company's or Selling Shareholder's knowledge, currently threatened, resulting from the Company's violation of any employment, labor or wage laws. All payments due from the Company on account of employee health and welfare insurance have been paid and all severance, sick or vacation payments by the Company which are or were due under the terms of any agreement or otherwise have been paid. All employees of the Company have been hired on an "at will" basis.

3. Representations and Warranties of the Selling Shareholders. Each of the Selling Shareholders hereby represents and warrants to the Purchaser for himself and not for the other Selling Shareholders, that:

3.1 Authorization. All acts and conditions required by law on the part of the Selling Shareholder to authorize the execution and delivery of this Agreement by such Selling Shareholder and the transactions contemplated herein and the performance of all obligations of such Selling Shareholder hereunder have been duly performed and obtained, and this Agreement constitutes a valid and legally binding obligation of the Selling Shareholder, enforceable in accordance with its terms, subject, as to the enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting creditors' rights generally, to general equitable principles and to limitations on the enforceability of indemnification provisions as applied to certain types of claims arising hereafter, if any, under the federal securities laws.

3.2 Compliance With Other Instruments. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not result in any violation or default of any provision of any instrument, judgment, order, writ, decree or contract to which such Selling Shareholder is a party or by which he or she is bound, or require any consent under or be in conflict with or constitute, with or without the passage of time and giving of notice, either a violation or default under any such provision.

3.3 Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, regional, state or local governmental authority of the United States on the part of such Selling Shareholder is required in connection with the consummation of the transactions contemplated by this Agreement, except for filings, if any, required pursuant to applicable federal and state securities laws, which filings will be made within the required statutory period.

3.4 Litigation. There is no action, suit, proceeding, or investigation pending or, to such Selling Shareholders' knowledge, currently threatened against such Selling Shareholder which questions the validity of this Agreement or the right of such Selling Shareholder to enter into this Agreement or to consummate the transactions contemplated hereby.

3.5 Title to Stock. Such Selling Shareholder has good title to the Common Stock to be transferred by such Selling Shareholder to the Purchaser under this Agreement, free and clear of any lien, pledge, security interest or other encumbrance (other than restrictions on transfer arising under applicable securities laws) and, upon delivery of the shares of Common Stock at the Closing as provided for in this Agreement, and assuming the Purchaser is acquiring the Common Stock in good faith and without notice of any adverse claim, the Purchaser will acquire good title thereto, free and clear of any lien, pledge, security interest or encumbrance (other than restrictions on transfer arising under applicable securities laws).

3.6 Disclosure. Such Selling Shareholder has fully provided the Purchaser and the Purchaser's legal counsel with all the information in such Selling Shareholders' possession that the Purchaser has requested in determining whether to purchase the Common Stock offered by such Selling Shareholder. Neither Section 3 of this Agreement nor any schedule or exhibit attached to this Agreement nor any certificate delivered pursuant hereto that, in any such case, has been or will be provided by or on behalf of such Selling Shareholder contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements made herein or therein not misleading in light of the circumstances under which they were made.

3.7 Intellectual Property of the Selling Shareholders. Each of the Selling Shareholders individually represents and warrants to the Purchaser as follows:

(a) The conduct of the Company's business as now conducted and as now proposed to be conducted does not violate, conflict with or infringe any Intellectual Property of the Selling Shareholder or any affiliate of the Selling Shareholder.

(b) The Selling Shareholder does not now conduct any business that violates, conflicts with or infringes any Intellectual Property of the Company and does not now propose to conduct any such business, directly or through an affiliate.

(c) Neither the Selling Shareholder nor any affiliate of the Selling Shareholder (other than the Company) is a party to or otherwise bound by any option, license or agreement of any kind (whether formal or informal) to which the Company is a party or by which the Company is bound, which, in any such case (i) conflicts with the Company's representation in Section 2.9 hereof or (ii) would give the Selling Shareholder any continuing interest in, or would give the Company any continuing payment obligation to the Selling Shareholder with respect to, any Intellectual Property formerly owned by the Selling Shareholder and currently used by the Company.

(d) The non-disclosure agreement between the Selling Shareholder and the Company is in full force and effect, has not been amended or modified in any respect and no provision of such agreement has been waived.

4. Representations and Warranties of the Purchaser. The Purchaser hereby represents and warrants to the Company and the Selling Shareholders that:

4.1 Organization, Good Standing and Qualification. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of California and has all requisite corporate power and authority to carry on its business as now conducted. The Purchaser is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a Material Adverse Effect on the Purchaser.

4.2 Authorization. All corporate action on the part of the Purchaser, its officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement and the transactions contemplated herein, and the performance of all obligations of the Purchaser hereunder, has been taken or will be taken prior to the Closing. This Agreement has been duly executed and delivered by the Purchaser and constitutes a valid and legally binding obligation of the Purchaser, enforceable in accordance with its terms, subject, as to the enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting creditors' rights generally, to general equitable principles and to limitations on the enforceability of indemnification provisions as applied to certain types of claims arising hereafter, if any, under the federal securities law.

4.3 Purchase for Investment. This Agreement is made with the Purchaser in reliance upon the Purchaser's representation which, by the Purchaser's execution of this Agreement, the Purchaser hereby confirms, that the Common Stock to be received by the Purchaser will be acquired for investment and not with a view to the distribution of any part thereof, and that the Purchaser has no present intention of selling, granting any participation in, or otherwise distributing the same in a manner contrary to the Act or applicable state securities laws.

4.4 Disclosure of Information; Due Diligence. The Purchaser represents that it has made an independent investigation and has had an opportunity to ask questions of

and receive answers from the Company and the Selling Shareholders regarding the Company and the terms and conditions of the offering of the Common Stock offered hereby and to obtain additional information necessary to verify the accuracy of the information supplied or to which it had access. The foregoing, however, does not limit or modify the representations and warranties of the Company or the Selling Shareholders contained herein.

4.5 Investment Experience; Accredited Investor Status. The Purchaser is able to fend for itself in the transactions contemplated by this Agreement, can bear the economic risk of its investment (including possible complete loss of such investment) for an indefinite period of time and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Common Stock. The Purchaser represents it has not been organized for the purpose of acquiring the Common Stock. The Purchaser understands that the Common Stock has not been registered under the Act, or under the securities laws of any jurisdiction by reason of reliance upon certain exemptions, and that the reliance of the Company and the Selling Shareholders on such exemptions is predicated upon the accuracy of the Purchaser's representations and warranties in this Section 4. The Purchaser is an "accredited investor" as defined in Rule 501(a) of Regulation D. The Purchaser acknowledges that the certificates representing the stock to be received by Purchaser will bear legends repeating the restrictions on resale contained in applicable securities laws.

4.6 Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, regional, state or local governmental authority on the part of the Purchaser is required in connection with the consummation of the transactions contemplated by this Agreement.

4.7 Insolvency. The consummation of the transactions contemplated by this Agreement will not render the Purchaser insolvent or bankrupt under any federal or state insolvency or bankruptcy law.

5. Conditions of the Purchaser's Obligations at the Closing. The obligations of the Purchaser under Section 1.1 of this Agreement are subject to the fulfillment at or before the Closing of each of the following conditions, unless waived by the Purchaser.

5.1 Representations and Warranties. The representations and warranties of (i) the Company and the Selling Shareholders contained in Section 2 hereof and (ii) each of the Selling Shareholders contained in Section 3 hereof, shall be true and correct on and as of the Closing with the same effect as though such representations and warranties had been made as of the date of the Closing.

5.2 Performance. The Company and the Selling Shareholders shall have performed and complied with all agreements, obligations and conditions contained in this

Agreement that are required to be performed or complied with by them on or before the Closing.

5.3 Compliance Certificate. The President of the Company shall have delivered to the Purchaser at the Closing a certificate certifying that the conditions specified in Sections 5.1 and 5.2, as those conditions relate to the Company, have been fulfilled and stating that there has been no material adverse change in the assets, condition, prospects or business of the Company, financial or otherwise, since March 31, 1996. Each of the Selling Shareholders shall have delivered to the Purchaser at the Closing a certificate certifying that the conditions specified in Sections 5.1 and 5.2, as those conditions relate to the Selling Shareholders, respectively, have been fulfilled.

5.4 Securities Laws Qualifications. The offer and sale of the Common Stock to the Purchaser pursuant to this Agreement shall be registered or qualified or exempt from registration or qualification under all applicable securities laws.

5.5 Proceedings and Documents. All corporate and other proceedings of the Company in connection with the transactions contemplated at the Closing and all documents incident thereto, shall be reasonably satisfactory in form and substance to the Purchaser's counsel, and the Purchaser and its counsel shall have received all such counterpart original and certified or other copies of such documents as they may reasonably request.

5.6 Share Certificates. The Selling Shareholders shall have delivered to the Purchaser share certificates representing the shares of Common Stock to be purchased hereunder by the Purchaser, properly endorsed in blank for transfer and accompanied by a duly executed stock power in proper form.

5.7 Government and Third-Party Consents. The Company shall deliver to the Purchaser at or prior to the Closing all government and third-party consents, releases, authorizations and approvals necessary for the consummation of the transactions contemplated by this Agreement.

5.8 Company Options. As of the date of the Closing, there will not be outstanding any options to purchase shares of the Company's stock.

5.9 Company Warrants. As of the date of the Closing, there will not be outstanding any warrants to purchase shares of the Company's stock.

5.10 Selling Shareholder Non-Competition and Non-Disclosure Agreement. Mr. Lipton, Mr. Stark and Mr. Romine shall have entered into a non-competition and non-disclosure agreement with Purchaser in the form attached hereto as of Exhibit A.

5.11 Opinion of Company Counsel. The Purchaser shall have received from Graham & James LLP, counsel for the Company, an opinion, dated as of the date of the Closing, substantially in the form attached hereto as Exhibit B.

5.12 Opinion of Selling Shareholder Counsel. The Purchaser shall have received from Graham & James LLP, counsel to the Selling Shareholders, an opinion, dated as of the date of the Closing, substantially in the form attached hereto as Exhibit C.

6. Conditions of the Company's and Selling Shareholder's Obligations at Closing. The obligations of the Company and the Selling Shareholders under this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions:

6.1 Representations and Warranties. The representations and warranties of the Purchaser contained in Section 4 hereof, shall be true and correct on and as of the Closing with the same effect as though such representations and warranties had been made as of the date of the Closing.

6.2 Performance. The Purchaser shall have performed and complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

6.3 Compliance Certificate. The President or Chief Financial Officer of the Purchaser shall have delivered to the Company at the Closing a certificate stating that the conditions specified in Sections 6.1 and 6.2 have been fulfilled.

6.4 Securities Laws Qualification. The offer and sale to the Purchaser of the Common Stock shall be registered, qualified or exempt from registration or qualification under all applicable securities laws.

6.5 Proceedings and Documents. All corporate and other proceedings of the Purchaser in connection with the transactions contemplated at the Closing and all documents incident thereto, shall be reasonably satisfactory in form and substance to the Company's and Selling Shareholders' counsel, and the Company, the Selling Shareholders and their counsel shall have received all such counterpart original and certified or other copies of such documents as they may reasonably request.

6.6 Government Consents. The Purchaser shall deliver to the Company and the Selling Shareholders at or prior to the Closing all government consents, releases, authorizations and approvals necessary for the consummation of the transactions contemplated by this Agreement.

6.7 Payment of Purchase Price. The Purchaser shall have delivered to each Selling Shareholder the purchase price with respect to the Common Stock to be purchased

from such Selling Shareholder in the form of a check or bank wire transfer of immediately available funds.

6.8 Payment of Finder's Fee. As soon as practicable following the Closing, Purchaser shall pay to Broadview a finder's fee of \$295,000 in connection with the transactions contemplated pursuant to this Agreement.

6.9 Opinion of Purchaser Counsel. The Company and the Selling Shareholders shall have received from Brobeck, Phleger & Harrison LLP, counsel to the Purchaser, an opinion dated as of the Closing, substantially in the form attached hereto as Exhibit D.

7. Indemnification.

7.1 Right to Indemnification. Each of the Selling Shareholders, jointly and severally, agrees to indemnify and hold harmless the Purchaser (for purposes of Sections 7.1, 7.2 and 7.3 hereof, the "Indemnified Party") from the date of the Closing until the date three (3) months after the date of the Closing and each of the Selling Shareholders, severally, agrees to indemnify and hold harmless the Indemnified Party from the date three (3) months after the date of the Closing until the first anniversary of the date of the Closing from and against and shall reimburse the Indemnified Party against and in respect of any and all losses, claims, damages, costs, expenses, obligations, liabilities, remedies or penalties (collectively, "Losses") that the Indemnified Party shall suffer or incur relating to, arising out of or in connection with any breach or inaccuracy of the representations and warranties made by the Company and Selling Shareholders in Sections 2 and 3 of this Agreement; including any expenses reasonably incurred by the Indemnified Party in connection with defending any such action or claim (including, without limitation, reasonable fees and disbursements of counsel) in litigation to which the Indemnified Party is a party. With respect to the foregoing, the Selling Shareholders will not, however, be responsible for any Losses that are finally judicially determined to have resulted from the bad faith or gross negligence of the Indemnified Party.

7.2 Limitation. The liability of each Selling Shareholder under this Section 7 and for any other Losses relating to, arising out of or in connection with this Agreement or other transactions contemplated hereby shall be limited to the Purchase Price set forth opposite each Selling Shareholder's name on Schedule A hereto and no claim for indemnification hereunder shall be asserted until Losses exceed \$100,000 in the aggregate and such Losses exceed \$100,000, a claim by the Indemnified Party may be made for all additional Losses above \$100,000. A written notice specifying the specific basis for such claim must be delivered to the Selling Shareholders before the first anniversary of the date of the Closing. Section 7 is the exclusive remedy of the Purchaser with respect to any Losses incurred as a result of the matters specified in Section 7.1, provided, however, nothing in this Section 7 shall limit, in any manner, any remedy at law or in equity to which the

Purchaser shall be entitled against the Selling Shareholders as a result of wilful fraud or intentional misrepresentation by any Selling Shareholders.

In any case in which claims have been asserted as and when required hereunder, the Selling Shareholders and the Indemnified Party agree that the indemnity obligations of the Selling Shareholders with respect to such matters shall continue in full force and effect until such matters have been settled by agreement of the Selling Shareholders and the Indemnified Party.

7.3 Notification, Etc. In case any proceeding (including any governmental investigation) shall be instituted involving the Indemnified Party, the Indemnified Party shall promptly notify the Selling Shareholders in writing and the Selling Shareholders, upon request of the Indemnified Party, shall retain counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party and any others the Selling Shareholders may designate in such proceeding and the fees and disbursements of such counsel related to such proceeding shall be paid by the Selling Shareholders which shall thereupon reduce the obligations of the Selling Shareholders in Section 7.2 hereof. In any such proceeding, the Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of the Indemnified Party. It is understood that the Selling Shareholders shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate firm (in addition to any local counsel) for the Indemnified Party. The Selling Shareholders shall not be liable for any settlement of any proceeding effected without the written consent of all of them, but if settled with such consent or if there be a final judgment for the plaintiff, the Selling Shareholders agree to indemnify the Indemnified Party from and against any loss or liability by reason of such settlement or judgment. The rights of the Indemnified Party to indemnification under this Section 7 are exclusive; provided, however, that any rights or remedies asserted against the Selling Shareholder shall be subject to the limitation set forth in Section 7.2 hereof.

8. Miscellaneous.

8.1 Survival of Warranties. The warranties, representations and covenants contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing until the first anniversary of the date of the Closing, notwithstanding any investigation by the Purchaser.

8.2 Successors and Assigns. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

8.3 Governing Law. This Agreement shall be governed by and construed under the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within the State of California.

8.4 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

8.5 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

8.6 Notices. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon (i) personal delivery to the party to be notified, or (ii) upon deposit with the United States Post Office, postage prepaid, registered or certified with return receipt requested and addressed to the party to be notified at the address indicated for such party on the signature page hereof, or (iii) upon confirmation of facsimile transmission at the facsimile number indicated for such party on the signature page hereof, or (iv) at such other address as such party may designate by 10 days' advance written notice to the other parties given in the foregoing manner.

8.7 Cost and Expense. Each of the Purchaser, Company and Selling Shareholders will be responsible for its own costs and expenses in connection with the negotiation and consummation of the transactions contemplated hereby. All legal expenses of the Company in excess of \$15,000 related to the transactions contemplated pursuant to this Agreement will be the responsibility of the Selling Shareholders.

8.8 Amendments and Waivers. After the Closing, any term of this Agreement may be amended and the observance of any term may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of a majority in interest of the Selling Shareholders and the Purchaser, provided that no such amendment would affect any Shareholder in a manner different than the other Shareholders will be treated.

8.9 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement, and the balance of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

8.10 Entire Agreement. This Agreement and the other documents delivered at the Closing constitute the full and entire understanding and agreement between the parties with respect to the subject matter hereof and supersede all prior agreements with respect to

the subject matter hereof, including without limitation the letter of intent dated May 16, 1996 among the Purchaser, the Company and the Selling Shareholders.

8.11 California Corporate Securities Law. THE SALE OF THE SECURITIES THAT IS THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, AND IN THE ABSENCE OF AN EXEMPTION FROM SUCH QUALIFICATION REQUIREMENT, THE SALE OF SUCH SECURITIES OR THE PAYMENT OF ANY PART OF THE CONSIDERATION FOR SUCH SECURITIES PRIOR TO SUCH QUALIFICATION IS UNLAWFUL. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH EXEMPTION BEING APPLICABLE.

8.12 Publicity. Purchaser and the Company will not make any press release or other public announcement concerning this Agreement or the transactions contemplated hereby except with the prior approval of the other, except for such disclosures as may be required by applicable law or securities exchange rules and regulations. A Selling Shareholder will not make any press release or other public announcement concerning this Agreement or the transactions contemplated hereby except with the prior approval of the Purchaser.

8.13 Expenses; Attorneys' Fees. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

COMPANY

LOTUS TECHNOLOGIES, INC.

Lewis T. Lipton, President

Address: 130-C Knolls Drive
Los Gatos, CA 95030

SELLING SHAREHOLDERS

Lewis T. Lipton, Trustee for the Lipton Separate Property Trust dated January 12, 1993

Address: 17660 Vista Avenue Monte Sereno, CA 95030

Dennis C. Stark

Address: #5 No Name Road
Los Gatos, CA 95030

Steven Romine

Address: 671 Cresci Road
Los Gatos, CA 95030

PURCHASER

INTEVAC, INC.

Norman H. Pond, President

Address: 3550 Bassett Street
Santa Clara, CA 95054

SCHEDULE A

SCHEDULE OF SELLING SHAREHOLDERS

Selling Shareholder -----	Number of Shares of Common Stock -----	Purchase Price -----
Lewis T. Lipton, Trustee for the Lipton Separate Property		
Trust dated January 12, 1993	1,260,000	\$2,675,000.00
Dennis C. Stark	1,260,000	\$2,675,000.00
Steven Romine	1,260,000	\$2,675,000.00
Total	3,780,000 =====	\$8,025,000.00 =====

SCHEDULE B

SCHEDULE OF EXCEPTIONS

SCHEDULE C

SCHEDULE OF MATERIAL CONTRACTS

EXHIBIT A

SELLING SHAREHOLDER

NON-COMPETITION AND NON-DISCLOSURE AGREEMENT

This SELLING SHAREHOLDER NON-COMPETITION AND NON-DISCLOSURE AGREEMENT (this "Agreement"), is entered into as of this 6th day of June, 1996 ("Effective Date") by and among Intevac, Inc., a California corporation ("Intevac"), and 1~.

WHEREAS, Intevac, Mr. 2~ and certain other parties have entered into that certain Stock Purchase Agreement dated as of June 6, 1996 (the "Purchase Agreement"), pursuant to which Intevac is acquiring all of the outstanding stock of Lotus Technologies, Inc. (the "Stock Purchase");

WHEREAS, in order to induce Intevac to enter into the Purchase Agreement, the parties hereto have agreed that this Agreement shall govern their respective rights with respect to the matters set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Non-Competition:

1.1 Covenant Not to Compete. The parties understand and agree that this Agreement is entered into in connection with the acquisition by Intevac of all of the issued and outstanding capital stock of Lotus Technologies, Inc. ("LTI") from the shareholders of LTI. The parties further understand and agree that Mr. 2~ was a key and significant shareholder of LTI. Commencing upon the Effective Date and continuing for a period up to and including the date that is three (3) years after the Effective Date, in consideration of the performance by Intevac of its respective obligations under the Purchase Agreement, Mr. 2~ agrees that he shall not engage in any of the following activities outside of his employment with Intevac:

(a) Enter into or engage in the business of designing, developing, manufacturing, marketing and selling of equipment for contact stop/start ("CSS") testing, including stiction, friction, torque and lifetime aspects related to those characteristics, and track average amplitude and pulse width 50 measurements as done on hard disks, heads used in hard disk drives and completed hard disk drives; or

(b) In any way interfere or compete with Intevac in its operation of the present business of LTI, including projects currently under development that relate to CSS testing, track average amplitude and pulse width 50 measurements done on hard disks, heads used in hard disk drives and completed hard disk drives; or

(c) Enter into or engage in any business or activity which would use LTI technology, trade secrets or know-how; or

(d) Assist any person or entity, in any manner, in the use of LTI patented technology, trade secrets or know-how.

However, Section 1.1 of this Agreement in no way shall restrict Mr. 2~ from working for any entity that does not commercially compete with Intevac.

1.2 Covenant Not to Solicit. Commencing upon the Effective Date and continuing for a period that is three (3) years after the Effective Date, Mr. 2~ agrees (i) not to solicit any employee, consultant or other service provider of Intevac or any of its respective affiliates to terminate his, her or its employment, consulting or other service arrangement with Intevac or such affiliate and (ii) not to solicit any business partner of Intevac or any of its respective affiliates to terminate its relationship with Intevac or such affiliate or otherwise interfere with such relationship.

1.3 Covenants Not Unduly Restrictive. Mr. 2~ acknowledges, represents and warrants to Intevac that the covenants of Mr. 2~ in Sections 1.1 and 1.2 hereof are reasonably necessary for the protection of Intevac's interests under this Agreement and are not unduly restrictive upon Mr. 2~. In any event, if any restriction set forth in Sections 1.1 and 1.2 hereof is held to be unreasonable, then Mr. 2~ agrees, and hereby submits, to the reduction and limitation of such prohibition to such area or period as shall be deemed reasonable.

2. Non-Disclosure.

2.1 Proprietary Information. Mr. 2~ has in his possession or may come into his possession in the future information relating to LTI's business (including, without limitation, trade secrets, computer programs, names and expertise of employees and consultants, designs, technology, know-how, ideas, compositions, data, techniques, improvements, inventions (whether patentable or not), schematics and other technical, business, financial, customer and product development plans, forecasts, strategies and information), which to the extent previously, presently or subsequently disclosed to Mr. 2~ is hereinafter referred to as "Proprietary Information."

2.2 Non-Disclosure of Proprietary Information. Mr. 2~ hereby agrees, except as Intevac may otherwise consent in writing, (i) to hold the Proprietary Information in strict confidence and to take all reasonable precautions to protect such Proprietary

Information, (ii) not to divulge any such Proprietary Information or any information derived therefrom to any third person, (iii) not to make any use whatsoever at any time of such Proprietary Information, except when providing services to Intevac, and (iv) not to copy any such Proprietary Information except in the performance of his duties to Intevac and its affiliates. Without granting any right or license, Intevac agrees that the foregoing clauses (i),

(ii), (iii) and (iv) shall not apply with respect to any Proprietary Information after three (3) years from the date hereof or any information that Mr. 2~ can document is, through no improper action or inaction by Mr. 2~ or any affiliate, agent, consultant or employee of Mr. 2~, generally available to the public. Mr. 2~ may make disclosures required by court order, provided Mr. 2~ uses reasonable efforts to limit such disclosure and to obtain confidential treatment or a protective order, and has allowed Intevac to participate in the proceeding.

3. REMEDIES.

3.1 Injunctive Relief. The parties hereto further agree that the covenants and obligations contained in this Agreement relate to special, unique and extraordinary matters and that a violation of any of such covenants or obligations may cause Intevac irreparable injury for which adequate remedy at law will not be available; and, therefore, that upon any such breach of any such covenant or obligation, or any threat thereof, Intevac shall be entitled to the immediate remedy of a temporary restraining order, preliminary injunction or such other form of injunctive or equitable relief in addition to whatever remedies they might have at law.

3.2 Remedies Cumulative. Intevac's rights and remedies under this Agreement are cumulative and are in addition to any other rights and remedies Intevac may have at law or in equity.

4. MISCELLANEOUS.

4.1 Notices. All notices and other communications required or permitted under this Agreement shall be delivered to the parties at the address set forth below their respective signature blocks, or at such other address that they designate by notice to the other party in accordance with this Section 4.1. All notices and communications must be sent by one of the methods specified below and shall be deemed to have been received unless otherwise set forth herein: (i) in the case of personal delivery, on the date of such delivery; (ii) in the case of telex or facsimile transmission, on the date on which the sender receives confirmation by telex or facsimile transmission that such notice was received by the addressee, provided that a copy of such transmission is additionally sent by mail as set forth in (iv) below; (iii) in the case of overnight air courier, on the second business day following the day sent, with receipt confirmed by the courier; and (iv) in the case of mailing by first class certified or registered mail, postage prepaid, return receipt requested, on the fifth business day following such mailing. All notices in (i), (ii) and (iii) must be followed by certified mail, return receipt requested within five (5) days.

4.2 Assignment. This Agreement shall be binding on, and shall inure to the benefit of, the parties hereto and their respective heirs, legal representatives, successors and assigns; provided, however, that Mr. 2~ may not assign, transfer or delegate his rights or obligations hereunder and any attempt to do so shall be null and void.

4.3 Entire Agreement. This Agreement contains the entire agreement of the parties with respect to the subject matter hereof, and all prior agreements, written or oral, are merged herein and are of no further force or effect.

4.4 Amendment. This Agreement may be modified or amended only by a written agreement signed by the President of Intevac and Mr. 2~.

4.5 Waivers. No waiver of any term or provision of this Agreement will be valid unless such waiver is in writing signed by the party against whom enforcement of the waiver is sought. The waiver of any term or provision of this Agreement shall not apply to any subsequent breach of this Agreement.

4.6 Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, but which together shall constitute one and the same instrument.

4.7 Severability. The provisions of this Agreement shall be deemed severable, and if any part of any provision is held illegal, void or invalid under applicable law, such provision may be changed to the extent reasonably necessary to make the provision, as so changed, legal, valid and binding. If any provision of this Agreement is held illegal, void or invalid in its entirety, the remaining provisions of this Agreement shall not in any way be affected or impaired but shall remain binding in accordance with their terms.

4.8 Governing Law. The terms of this Agreement shall be governed by the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within the State of California.

4.9 Attorneys' Fees. In the event of any proceeding, claim or action being filed or instituted between the parties with respect to this Agreement, the prevailing party will be entitled to receive from the other party all costs, damages and expenses, including reasonable attorneys' fees, incurred by the prevailing party in connection with that action or proceeding whether or not the controversy is reduced to judgment or award. The prevailing party will be that party who may be fairly said by the trier of fact to have prevailed on the major disputed issues.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

INTEVAC, INC.

Norman H. Pond, President

Address: 3550 Bassett Street
Santa Clara, CA 95054

1~

Address:

EXHIBIT B

MATTERS TO BE COVERED IN THE OPINION OF COUNSEL TO LOTUS TECHNOLOGIES, INC.

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of California, and the Company has the requisite corporate power and authority to own its properties and to conduct its business as presently conducted.
2. The Company is qualified to do business as a foreign corporation in each jurisdiction of the United States where its failure to do so would have a material adverse effect on its business or properties.
3. The Company has the requisite corporate power and authority to execute, deliver and perform the Stock Purchase Agreement. The foregoing has been duly and validly authorized by the Company, duly executed and delivered by an authorized officer of the Company and constitutes a legal, valid and binding obligation of the Company, enforceable against the Company according to its terms.
4. To our knowledge, the capitalization of the Company immediately prior to the Closing is as follows:
 - a. Common Stock. 10,000,000 shares of common stock ("Common Stock"), no par value, 3,780,000 shares of which have been duly authorized and validly issued, are nonassessable, and to our knowledge, fully paid.
 - b. There are no preemptive rights or options, warrants, conversion privileges or other rights (or agreements for any such rights) outstanding to purchase or otherwise obtain from the Company any of the Company's securities.
5. The execution, delivery, performance and compliance with the terms of the Stock Purchase Agreement do not violate any provision of any applicable federal or California corporate law or any provision of the Company's Articles of Incorporation or Bylaws and, to our knowledge, do not conflict with or constitute a default under the provisions of any judgment, writ, decree or order or the material provisions of any material agreement to which the Company is a party or by which it is bound.
6. All consents, approvals, permits, orders or authorizations of, and all qualifications, registrations, designations, declarations or filings with, any federal, or California state governmental authority on the part of the Company required in connection with the execution, delivery and performance of the Stock Purchase Agreement have been

obtained, and are effective, and we are not aware of any proceedings, or threat thereof, which question the validity thereof.

7. Based in part upon the representations of Purchaser in the Stock Purchase Agreement, the offer and sale of the Common Stock to Purchaser pursuant to the terms of the Stock Purchase Agreement are exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended.

8. We are not aware that there is any action, proceeding or governmental investigation pending against the Company, which questions the validity of the Stock Purchase Agreement or the right of the Company or its officers, directors and employees to enter into the Stock Purchase Agreement, or which is not referred to in the Schedule of Exceptions.

EXHIBIT C

**MATTERS TO BE COVERED IN THE OPINION OF
COUNSEL FOR EACH OF THE SELLING SHAREHOLDERS**

- (i) The Stock Purchase Agreement has been duly executed and delivered on behalf of the Selling Shareholder.
- (ii) The Selling Shareholder has full power and authority, and any approval required by law (other than as required by State securities and blue sky laws as to which such counsel need express no opinion), to sell, assign, transfer and deliver the portion of the Stock to be sold by such Selling Shareholder.
- (iii) The stock power executed and delivered by the Selling Shareholder is a valid and binding instrument.
- (iv) Upon payment for and delivery of the Common Stock with all necessary endorsements in accordance with the terms of the Agreement, and assuming the Purchaser is acquiring the shares of Common Stock in good faith without notice of any adverse claim, the Purchaser will be the owner of the shares of Common Stock, free and clear of any adverse claim.

In rendering such opinion such counsel for the Selling Shareholders may rely, as to matters governed other than by the laws of the State of California or Federal law on local counsel in such jurisdictions and, as to the matters set forth in subparagraphs (ii), (iii) and (iv), on other counsel representing the respective Selling Shareholder provided that in each case counsel for the Selling Shareholder shall state that they believe that they and Intevac, Inc. are justified in relying on such other counsel.

EXHIBIT D

MATTERS TO BE COVERED IN THE OPINION OF COUNSEL TO INTEVAC, INC. (THE "PURCHASER")

1. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of California, and the Purchaser has the requisite corporate power and authority to own its properties and to conduct its business as presently conducted.
2. The Purchaser has the requisite corporate power and authority to execute, deliver and perform the Stock Purchase Agreement. The Stock Purchase Agreement has been duly and validly authorized by the Purchaser, duly executed and delivered by an authorized officer of the Purchaser and constitutes a legal, valid and binding obligation of the Purchaser, enforceable against the Purchaser according to its terms.
3. The execution, delivery, performance and compliance with the terms of the Stock Purchase Agreement do not violate any provision of any applicable federal or California corporate law or any provision of the Articles of Incorporation or Bylaws and, to our knowledge, do not conflict with or constitute a default under the provisions of any judgment, writ, decree or order.
4. All consents, approvals, permits, orders or authorizations of, and all qualifications, registrations, designations, declarations or filings with any federal or California state governmental authority on the part of the Purchaser required in connection with the execution, delivery and performance of the Stock Purchase Agreement have been obtained, and are effective, and we are not aware of any proceedings, or threat thereof, which question the validity thereof.
5. We are not aware that there is any action, proceeding or governmental investigation pending against the Purchaser, which questions the validity of the Stock Purchase Agreement or the right of the Purchaser or its

officers, directors and employees to enter into the Stock Purchase Agreement.

EXHIBIT 11.1

INTEVAC, INC.

COMPUTATION OF NET INCOME PER SHARE

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED	
	1993	1994	1995	APR. 1, 1995	MAR. 30, 1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Shares used in Calculation of Net Income					
Per Share:					
Average Common Shares outstanding.....	674	700	3,653	690	12,249
Net effect of dilutive stock options....	155	109	152	129	382
Shares related to SAB Nos. 55, 64 and 83:					
Stock options.....	217	217	198	217	--
Common stock issued.....	579	579	527	579	--
Series A convertible preferred shares as-if-converted.....	8,680	8,680	6,076	8,680	--
	-----	-----	-----	-----	-----
	10,305	10,285	10,606	10,295	12,631
	=====	=====	=====	=====	=====
Income from continuing operations.....	\$ 66	\$ 1,675	\$ 5,765	\$ 467	\$ 1,897
	=====	=====	=====	=====	=====
Net income.....	\$ 1,523	\$ 1,408	\$ 7,100	\$ 1,802	\$ 1,897
	=====	=====	=====	=====	=====
Income per share from continuing operations.....	\$ 0.01	\$ 0.16	\$ 0.54	\$ 0.05	\$ 0.15
	=====	=====	=====	=====	=====
Net income per share.....	\$ 0.15	\$ 0.14	\$ 0.67	\$ 0.18	\$ 0.15
	=====	=====	=====	=====	=====

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the reference to our firm under the captions "Selected Financial Data" and "Experts" and to the use of our report dated February 2, 1996 in the Registration Statement (Form S-1) and related Prospectus of Intevac, Inc. for the registration of 2,587,500 shares of its common stock.

Ernst & Young LLP

San Jose, California

June 6, 1996

EXHIBIT 23.2

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated March 28, 1996 (except for Note 4, as to which the date is June 5, 1996,) with respect to the financial statements of Lotus Technologies, Inc. included in the Registration Statement (Form S-1) and related Prospectus of Intevac, Inc. for the registration of 2,587,500 shares of its common stock.

ERNST & YOUNG LLP

San Jose, California

June 5, 1996

End of Filing

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