

# INTEVAC INC

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 03/09/01 for the Period Ending 12/31/00

Address	3560 BASSETT STREET SANTA CLARA, CA, 95054
Telephone	4089869888
CIK	0001001902
Symbol	IVAC
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Industry	Industrial Machinery & Equipment
Sector	Industrials
Fiscal Year	12/31

# INTEVAC INC

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 3/9/2001 For Period Ending 12/31/2000

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

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**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-K**

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_ .

COMMISSION FILE NUMBER 0-26946

**INTEVAC, INC.**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CALIFORNIA  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

94-3125814  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

**3560 BASSETT STREET**  
**SANTA CLARA, CALIFORNIA 95054**  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE, INCLUDING ZIP CODE)

**REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (408) 986-9888**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE**

TITLE OF EACH CLASS  
-----  
none

NAME OF EACH EXCHANGE ON WHICH REGISTERED  
-----  
none

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**  
**COMMON STOCK (NO PAR VALUE)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by a check mark if disclosure of delinquent filers pursuant to

Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of voting stock held by non-affiliates of the Registrant, as of February 26, 2001 was approximately \$20,087,000 (based on the closing price for shares of the Registrant's Common Stock as reported by the Nasdaq National Market System for the last trading day prior to that date). Shares of Common Stock held by each executive officer, director, and holder of 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On February 26, 2001 approximately 11,934,668 shares of the Registrant's Common Stock, no par value, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE.**

PORTIONS OF THE REGISTRANT'S PROXY STATEMENT FOR THE 2001 ANNUAL MEETING OF SHAREHOLDERS ARE INCORPORATED BY REFERENCE INTO PART III. SUCH PROXY STATEMENT WILL BE FILED WITHIN 120 DAYS AFTER THE END OF THE FISCAL YEAR COVERED BY THIS ANNUAL REPORT ON FORM 10-K.

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This Annual Report on Form 10-K contains forward-looking statements which involve risks and uncertainties. Words such as "believes," "expects," "anticipates" and the like indicate forward-looking statements. Intevac's actual results may differ materially from the results discussed in the forward-looking statements for a variety of reasons, including those set forth under "Risk Factors Affecting Intevac's Business."

## **PART I**

### **ITEM 1. BUSINESS**

#### **OVERVIEW**

Intevac, Inc.'s ("Intevac" or the "Company") businesses are the design, manufacture and sale of complex capital equipment used to manufacture products such as thin-film disks and flat panel displays (the "Equipment Division") and the development of highly sensitive electro-optical devices (the "Photonics Division").

The Equipment Division is a leading supplier of 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 Equipment Division also realizes revenues from the sales of disk lubrication equipment and flat panel display ("FPD") manufacturing equipment. Upgrades, spare parts and after-sale service are also sold to purchasers of Intevac's equipment, and sales of components are made to other manufacturers of vacuum equipment. The Equipment Division recorded sales of \$28.8 million in 2000, down from \$36.0 million in 1999. 2000 Equipment Division revenues resulted primarily from the sales of technology upgrades, spare parts and consumables for disk manufacturing equipment, rather than from the sale of new disk manufacturing systems. The Company expects this trend to continue in 2001 for its disk manufacturing products. However, the Company entered 2001 with a substantial backlog of orders for its FPD manufacturing equipment and expects substantial revenue growth in the Equipment Division during 2001, primarily as a result of increased sales of FPD manufacturing equipment.

The Photonics Division develops electro-optical devices that permit highly sensitive detection of photons in the visible and short wave infrared portions of the spectrum. This technology, when combined with advanced silicon integrated circuits, makes it possible to produce highly sensitive digital video cameras. This development work is aimed at creating new products for both military and industrial applications. Products under development include Intensified Digital Video Sensors, LIVAR(R) systems for positive target identification, and low-cost low-light-level cameras. Intevac's Intensified Digital Video Sensor offers both high sensitivity and high resolution. The output of this sensor is digital video. Systems using this sensor have capabilities and features not possible with the direct view night vision devices currently in use by the military. For example, these systems free the user from having to hold the device to the eye and permit remote viewing and image processing. Intevac integrated its Intensified Digital Video Sensor technology with a laser illuminator to create its LIVAR(R) ("Laser Illuminated Viewing and Ranging") system. The LIVAR(R) system is similar to RADAR, but with a number of improvements. The illuminator is an eye safe laser, rather than a microwave source, and the reflected signal is displayed as a digital video image. Photonics Division sales, which consisted primarily of contract research and development, increased to \$7.3 million in 2000 from \$7.0 million in 1999. The Photonics Division has completed approximately \$23 million of government-sponsored research and development since 1994.

#### **EQUIPMENT**

##### **Disk Sputtering Systems**

Intevac sputtering systems are typically offered at list prices ranging from \$2.5 million to \$3.5 million, depending upon configuration, to both captive and merchant thin-film disk manufacturers. There are approximately 110 Intevac MDP-250 disk sputtering systems installed worldwide at Fuji Electric, Fujitsu Limited, Hitachi, Komag, MMC Technology, Mitsubishi, Nippon Sheet Glass, Seagate Technology, Sony and Trace Storage Technology.

Intevac's sputtering systems are used by disk manufacturers to apply thin layers of undercoats, magnetic alloys and protective overcoats to thin-film disks used in the manufacture of computer hard disk drives. The MDP-250 system has the capability to sputter multi-layers (multiple magnetic layers with interspersed non-magnetic layers); to sputter onto alternative substrates (such as glass and ceramic), as well as conventional aluminum substrates; and to make media with the appropriate characteristics for use with magneto-resistive ("MR") heads and giant magneto-resistive ("GMR") heads. The mechanical design of the MDP-250 family has characteristics similar to the cluster tools widely used in semiconductor manufacturing in that each of the twelve process stations is separately vacuum pumped and vacuum isolated. The MDP-250 does not require a carrier or pallet to transport disks through the system. Rather, disks are automatically loaded into the system from cassettes, processed, and then automatically returned to the cassette. A number of process station options are offered, including multiple options for the deposition of thin films, heating stations, cooling stations and cleaning stations. Furthermore, these process stations can be moved from any machine process position to any other to easily accommodate process changes.

### **Cluster Tool Add-On Module**

The rapid increase in areal density has caused the thin films deposited by our MDP-250 series of equipment to quickly become much more complex. This increased complexity is leading to the need for additional process stations and flexibility in the equipment to accommodate both an increased number of process steps and new processing requirements. To answer these needs, Intevac developed the MDP-200, a modular add-on system that allows manufacturers to seamlessly integrate any number of additional process stations onto their MDP-250 sputtering equipment in a vacuum environment. The MDP-200 provides the capability to process disks through process stations serially or in parallel giving manufacturers broad flexibility to integrate process steps with different process times. The MDP-200 can accommodate a variety of processes including heating, thin-film deposition, cooling, and vapor lubrication. This arrangement also improves vacuum isolation between process steps, which is of increasing importance for some new processes, such as advanced carbon and vapor lubrication, which utilize materials that are not compatible with the sputtering processes for the underlayers and magnetics.

### **New Carbon Technology**

One method for increasing the areal density of disks is to reduce the thickness of the carbon overcoat that protects the underlying magnetic film from wear and corrosion. By reducing the thickness of the overcoat the disk drive head can fly closer to the magnetic film which increases signal strength. To achieve thinner carbon overcoats Intevac has developed its new carbon technology ("NCT") process station. The NCT process station is able to apply very hard, diamond-like carbon overcoats to disks that permit the carbon overcoats to be reduced in thickness to below 50 angstroms.

### **Disk Lubrication Equipment**

Lubrication is the production step that follows disk sputtering in the manufacture of thin-film disks. Intevac, through its 1996 acquisition of San Jose Technology Corp. ("SJT"), is the leading supplier of gravity flow disk lubrication systems. During lubrication, a microscopic layer of lubricant is applied to the disk's surface to improve durability, reduce corrosion and reduce surface friction. This is accomplished by immersing the disks in a solvent that has been mixed with a small amount of lubricant. Intevac's gravity disk lubrication 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.

Intevac's Vapor Lubrication System (the "VLS") is a new approach to disk lubrication that couples vacuum sputter coating with a vacuum lubrication process. The VLS is an alternative to the traditional gravity lubrication process and offers a number of process enhancements to disk manufacturers. Since the disks never leave vacuum after sputtering, the exposure of the disk to atmosphere between the sputtering and lubrication steps is eliminated. This improves process control, reduces the risk of contamination and improves the bonding of the lubricant to the disk. Additionally, more efficient use is made of clean room space and the process is environmentally friendly as large quantities of expensive solvents are eliminated from the lubrication process.

## **MDP-250 Upgrade Path**

Many of the new process and system technologies that Intevac has developed for its newest MDP-250 systems have been designed to be backwards compatible and field installable. The MDP-200, the Vapor Lubrication System, all process stations, and a number of the speed and vacuum enhancements can be retrofitted to Intevac's existing installed based of MDP-250 systems. Intevac's intent is to afford our customers a cost-effective solution that significantly upgrades and extends the capabilities of their installed base of equipment in a manner that is complementary to the latest generation MDP-250 systems.

### **Flat Panel Display Sputtering Equipment**

FPD's are used for a variety of applications such as PCs, handheld communication devices, workstations and video displays. The manufacture of several types of flat panel displays, such as active matrix liquid crystal display ("AMLCD") and plasma display panel ("PDP"), requires the use of a sputtering process to deposit thin-film layers of different materials onto a glass substrate. Intevac 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 substrate transport. 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.

Intevac developed its FPD sputtering system for this market under an agreement with its development partner, Ebara Corporation ("Ebara"). Under the agreement, as amended, Ebara agreed to pay one-half of the development costs of the flat panel sputtering system in exchange for joint ownership of the intellectual property rights and the exclusive right to manufacture and sell in Japan the flat panel sputtering systems developed under the agreement. Intevac has retained the exclusive right to manufacture and sell such flat panel sputtering systems outside of Japan. Each party is required to pay royalties to the other party on its flat panel sputtering system sales. Ebara has not yet exercised its right to manufacture FPD equipment.

Intevac's D-STAR(R) flat panel sputtering systems are scalable and have been manufactured in sizes capable of sputtering glass substrates as small as 550 mm by 650 mm to as large as 1.2 meters by 1.6 meters.

During 2000 Intevac manufactured a custom D-STAR(R) system for a customer with a multi-chip module application. That customer cancelled its order shortly before shipment of the system. The Company has a substantial inventory investment in the custom system and is in active dialog with the customer to resolve the cancellation. Depending on the results of the dialog with the customer, Intevac may have to establish a cost-to-market reserve for this system in the future.

### **Flat Panel Display Rapid Thermal Processing Equipment**

Intevac's rapid thermal processing ("RTP") systems are used to rapidly modify the characteristics of thin films deposited on glass substrates such as are used in the manufacture of FPD's. Intevac's patented RTP technology enables manufacturers to change the properties of these thin films by thermally processing them at temperatures that would otherwise distort and destroy the underlying glass substrate. Processes that Intevac's RTP systems are suitable for include thin-film activation after ion implant, dehydrogenation, densification and crystallization. Intevac's RTP systems are in use at Sony, Sanyo and a joint manufacturing facility of Sony and Toyota.

An arc lamp with a patented reflector that produces an intense and highly uniform spectral output is the core of the RTP system. The lamp/reflector system enables transient annealing rather than heating of the entire substrate. In transient annealing a uniform line of radiation is focused onto the moving substrate and a narrow band of the substrate is brought up to peak process temperature at any time. The substrate remains undistorted because at all times the majority of its area is at a relative cool temperature and can act to stabilize the small area, which is very hot. Exposure time is typically under one second.

## **Electron Beam Processing Equipment**

In December 1999, Intevac incurred a charge of \$1.6 million related to a plan to terminate its electron beam product line. The plan included the delivery of the three electron beam systems on order and subsequent closure of the Hayward facility where the systems were manufactured. In March 2000, the Company sold the electron beam business to Quemex Technology, Ltd. ("Quemex") and Quemex assumed responsibility for Intevac's Hayward facility. Intevac retained rights to the three systems on order, which were completed and shipped.

## **PHOTONICS**

### **History**

Intevac's Photonics products have been developed by a team that initially began working together in the 1980's in the Varian central research labs and night vision business unit. When Intevac was formed in 1991, it acquired Varian's night vision business, and the related Varian central research lab activities and technology. The central research lab group became part of the R&D department for Intevac's night vision business and continued to develop Intevac's photocathode technology. In 1995, Intevac sold its night vision business to Litton Industries. However, the technical team remained at Intevac and formed the Photonics Division. Since 1995 the Photonics Division has been further developing its technology, with the majority of its activities being funded by R&D contracts from the United States Government. During this period the Photonics Division has also worked collaboratively with other research organizations, including Stanford University, Lawrence Livermore National Laboratory and The Charles Stark Draper Laboratory.

### **Technology**

Intevac's Intensified Digital Video Sensor exemplifies Intevac's Photonics technology. The Intensified Digital Video Sensor is a vacuum device about an inch in diameter and a quarter-inch thick. The Intensified Digital Video Sensor has a transparent glass window on one side through which photons are focused onto a photocathode on the vacuum side of the window. When a photon strikes the photocathode, an electron is emitted into the vacuum. The electron is then accelerated and strikes a Charge Coupled Device ("CCD"). The CCD then outputs a high-resolution video signal.

The Intensified Digital Video Sensor offers both high sensitivity and high resolution. It works well in the visible as well as the near infrared range of the spectrum. The output is video, which frees the user from having to hold the device to the eye and permits remote viewing and image processing. The Company believes it has capability and features not possible with the direct view night vision devices currently in use by the military.

### **LIVAR(R) Target Identification System**

Intevac integrated its Intensified Digital Video Sensor technology with a laser illuminator to create its Laser Illuminated Viewing and Ranging system ("LIVAR(R)"). The LIVAR(R) system is similar to RADAR, but with a number of improvements. The illuminator is an eye safe laser, rather than a longer wavelength microwave source, and the reflected signal is displayed as a digital video image, rather than as a blip. This enables real time, high-resolution imagery for target identification at much longer ranges than was previously possible.

The potential benefit of the LIVAR(R) system is clear for military conflicts such as that which occurred in Kosovo. In the Kosovo conflict, casualties to US servicemen were politically unacceptable, which meant that aircraft could only operate at high altitudes where they were relatively safe from ground launched missile attacks. It was also unacceptable to inflict collateral damage to the other sides' civilians or to other untargeted assets. However, these goals are mutually exclusive unless capability exists for positively identifying targets from long ranges.

Currently the military uses several means for target location and identification including forward-looking infrared ("FLIR") systems and RADAR. While these systems can sense targets at relatively long ranges, the

resolution is poor, and positive identification is difficult, or impossible. The LIVAR(R) system complements the existing FLIR and RADAR technology and enables target identification in addition to target sensing. Because of these advantages, LIVAR(R) is currently under consideration by the US military as a key capability to be deployed in a number of the US military's weapons systems including the Joint Strike Fighter, Unmanned Aerial Vehicles, Unmanned Ground Vehicles, and a man-portable system.

Intevac is under contract from the U.S. Army for the development and demonstration of a low cost, man-portable targeting and surveillance system. The targeting and surveillance system will utilize LIVAR(R) technology, which will enable identification of targets at long ranges under day/night conditions, a significant improvement in both resolution and range over existing target identification systems. Intevac expects to deliver this unit during 2001.

### **High Performance Cameras**

In September 1999, the first of seven highly sensitive short-wave infra-red cameras was accepted by Intevac's customer, Lockheed Martin Missiles & Space, for use in the U.S. Air Force's Airborne Laser ("ABL") program. The ABL system will be carried aboard a modified Boeing 747 and will be capable of shooting down theater ballistic missiles launched hundreds of kilometers away. The highly sensitive Intevac camera is an enabling technology for this program.

The key technology in the ABL camera is a highly sensitive photocathode, which emits electrons that are detected by a CCD. The electron bombarded CCD ("EBCCD") was developed under a cost shared Technology Development Agreement with the Defense Advanced Research Projects Agency ("DARPA"). The ABL program was the first application using this technology.

### **Low Cost Low Light Level Cameras**

Today's low light level cameras, derived from military night vision technology, are too expensive for most commercial applications. Intevac's objective is to reduce this cost to \$500 per camera, a cost at which the Company believes that large available markets for commercial security cameras, law enforcement and traditional military night vision tubes could be addressed. Intevac is currently developing this low light level video camera with National Semiconductor under a \$10 million cost-sharing program sponsored by the National Institute of Standards and Technology ("NIST"). The NIST program involves the development of a CMOS chip that integrates an active pixel imaging sensor with camera electronics by National Semiconductor; photocathode design, product integration and development of low cost manufacturing processes by Intevac's Photonics Division; and development of automated processing and assembly equipment by Intevac's Equipment Division.

Unlike present low light level cameras, which work well only in darkness, these Electron Bombarded Active Pixel Sensor ("EBAPS(TM)") cameras should perform just as well in all types of lighting conditions, including bright daylight. Intevac plans to begin commercial sales in 2002.

### **Negative Electron Affinity Electron Sources**

Development is also being done on negative electron affinity ("NEA") electron sources. NEA electron sources provide an enabling technology to be used in semiconductor test and photolithography equipment, which could significantly improve throughput and permit a significant reduction in the feature size of integrated circuits.

## **RESEARCH AND DEVELOPMENT**

Intevac's products serve markets characterized by rapid technological change and evolving industry standards. As a result, Intevac routinely invests substantial amounts in research and development and expects to continue an active development program. Intevac's research and development expenses were \$10.6 million, \$14.1 million and \$12.7 million, respectively, in 2000, 1999 and 1998. Research and development expenses represented 29%, 33% and 13%, respectively, of net revenues in 2000, 1999 and 1998. Research and

development expenses do not include costs of \$0.7 million, \$1.1 million and \$1.8 million that were incurred by Intevac in 2000, 1999 and 1998, respectively, that were reimbursed under the terms of research and development cost sharing agreements related to development of disk and flat panel manufacturing equipment. Additional research and development expenses of \$6.0 million, \$5.9 million and \$4.8 million in 2000, 1999 and 1998, respectively, were incurred under contract for the Company's Photonics customers. These costs are included in cost of goods sold.

## **SALES CHANNEL, CUSTOMERS AND MARKETING**

Domestic equipment sales are made by the Equipment Division direct sales force. International equipment sales are made by the Company's exclusive distributor in Japan, Matsubo; the Company's subsidiary in Singapore; and by sales representatives in Korea and Taiwan. The Company's distributor and sales representatives typically provide sales, installation, warranty and ongoing customer support. Through the second quarter of 2000, Intevac marketed its flat panel manufacturing equipment to Far East customers through its Japanese joint venture, IMAT, after which Intevac and its joint venture partner, Matsubo, transferred IMAT's activities and employees to Matsubo and terminated the operations of IMAT. Photonics sales are made by the Photonics Division direct sales force.

The selling process for Intevac's equipment 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 samples for the prospective customer and responding to individual needs for moderate levels of machine customization. Installing and integrating new equipment requires a substantial investment by a customer. Sales of Intevac's systems depend, in significant part, upon the decision of a prospective customer to replace obsolete equipment or to increase manufacturing capacity by upgrading or expanding existing manufacturing facilities or constructing new manufacturing facilities, all of which typically involve a significant capital commitment. Therefore, customers often require a significant number of product presentations and demonstrations before making a purchasing decision. Accordingly, Intevac's systems typically have a lengthy sales cycle, during which Intevac may expend substantial funds and management time and effort with no assurance that a sale will result.

The selling process for Intevac's Photonics Division primarily involves the solicitation of contracts and subcontracts from government agencies and from government contractors and subcontractors. Some contracts are bid at a fixed cost, some contracts are bid at cost plus a fee and some contracts are bid on a cost-sharing basis. The sales process involves government procurement regulations and is dependant on the continuing availability of government funding for the Company's research programs. Future production orders for Intevac's military products are dependent on the government funding of the weapons systems that utilize Intevac products such as LIVAR(R).

Historically, a significant portion of Intevac's revenues in any particular period has been attributable to sales to a limited number of customers. For example, 46%, 66% and 71% of Intevac's total revenues in 2000, 1999 and 1998, respectively, were accounted for by the three largest customers in each of the those years. Intevac's largest customers change from period to period and it is expected 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.

Foreign sales accounted for 27% of revenues in 2000, 60% of revenues in 1999 and 53% of revenues in 1998. The majority of Intevac's foreign sales are to companies in the Far East and Intevac anticipates that sales to customers in the Far East will continue to be a significant portion of its revenues.

## **CUSTOMER SUPPORT**

Intevac provides process and applications support, customer training, installation, start-up assistance and emergency service support to its customers. Process and applications support is provided by Intevac's equipment process engineers who also visit customers at their plants to assist in process development projects. Intevac conducts training classes for process engineers, machine operators and machine service personnel. Additional training is also given during the machine installation. Installation and start up support is generally

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

Intevac generally provides a one-year warranty on its equipment. During this warranty period any necessary non-consumable parts are supplied and installed. Intevac employees provide field service support primarily in the United States, Singapore and Malaysia. In other countries, field service support is provided by Intevac's distributors and sales representatives, supplemented by Intevac factory support. Intevac and its distributor stock consumables and spare parts to support the installed base of systems. These parts are available on a 24-hour per day basis.

## **MANUFACTURING**

All of Intevac's manufacturing is conducted at its facility in Santa Clara, California. Intevac's Equipment manufacturing operations include electromechanical assembly, mechanical and vacuum assembly, fabrication of the sputter sources and system assembly, alignment and testing. Intevac's Photonics manufacturing operations include growth of advanced photocathodes and assembly of complex vacuum devices under clean room conditions utilizing a number of advanced processing techniques. Intevac makes extensive use of the infrastructure serving the semiconductor equipment business. Intevac purchases vacuum pumps, valves, instrumentation and fittings, power supplies, printed wiring board assemblies, computers and control circuitry and custom mechanical parts made by forging, machining and welding. Intevac has a well-equipped fabrication center that manufactures a portion of the fabricated parts used in Intevac products and also sells fabricated parts to commercial customers.

Intevac's manufacturing strategy is to operate with low fixed costs, 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, Intevac currently designs its products to use standard parts where possible. Intevac 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.

## **BACKLOG**

Intevac's backlog was \$42.1 million and \$24.6 million at December 31, 2000 and December 31, 1999, respectively. Intevac 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. The equipment requirements of Intevac's customers cannot be determined with accuracy, and therefore Intevac's backlog at any certain date may not be indicative of future demand for Intevac's products.

## **PATENTS AND LICENSING**

Intevac currently has 30 patents issued in the United States and 17 patents issued in foreign countries, and has patent applications pending in the United States and foreign countries. Of the 30 U.S. patents, 11 relate to sputtering, 7 relate to RTP, 10 relate to photonics, 1 relates to lubrication systems and 1 relates to CSS. Five foreign patents relate to sputtering, 11 relate to photonics and 1 relates to RTP. In addition, Intevac has the right to utilize certain patents under licensing arrangements with Litton Industries, Stanford University, Lawrence Livermore Laboratories and Alum Rock Technology.

## **EMPLOYEES**

At December 31, 2000, Intevac had 190 employees, including 16 contract employees. 86 of these employees were in research and development, 72 in manufacturing, and 32 in administration, customer support and marketing.

## **RISK FACTORS AFFECTING INTEVAC'S BUSINESS**

Our products are complex, constantly evolving, and often manufactured to individual customer requirements.

Intevac's Equipment Division products have a large number of components and are highly complex. Intevac 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 Intevac must be customized to meet individual customer site or operating requirements. Intevac 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. In addition, Intevac 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. In certain instances, Intevac 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. Any of these factors could adversely affect Intevac's business.

The Equipment Division is subject to rapid technical change.

Intevac's ability to remain competitive requires substantial investments in research and development. The failure to develop, manufacture and market new systems, or to enhance existing systems, would have an adverse effect on Intevac's business. In the past, Intevac has experienced delays from time to time in the introduction of, and technical difficulties with, some of its systems and enhancements. Intevac's success in developing and selling equipment 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. Intevac's new product decisions and development commitments must anticipate continuously evolving industry requirements significantly in advance of sales. Any failure to accurately predict customer requirements and to develop new generations of products to meet those requirements would have an adverse effect on Intevac's business.

The Photonics Division does not yet generate a significant portion of its revenues from product sales.

To date the activities of the Photonics Division have concentrated on the development of its technology and prototype products that demonstrate this technology. Revenues have been derived primarily from research and development contracts funded by the United States Government and its contractors. The Company plans to develop standard photonics products for sale to military and commercial customers. The Photonics Division will require substantial further investment in sales and marketing, in product development and in additional production facilities to support the planned transition to volume sales of photonics products to military and commercial customers. There can be no assurance that the Company will succeed in these activities and generate significant increases in sales of products based on its photonics technology.

The sales of our equipment products are dependent on substantial capital investment by our customers.

The majority of our Equipment revenues have historically come from the sale of equipment used to manufacture thin-film disks, and to a lesser extent, from the sale of equipment used to manufacture flat panel displays. The purchase of Intevac's systems, along with the purchase of other related equipment and facilities, requires extremely large capital expenditures by our customers. These costs are far in excess of the cost of the Intevac systems. The magnitude of such capital expenditures requires that our customers have access to large amounts of capital and that they are willing to invest that capital over long periods of time in order to be able to purchase our equipment. Some of our customers, particularly those that purchase our disk manufacturing products, may not be willing, or able, to make the magnitude of capital investment required to purchase our products.

The disk drive industry has been severely impacted by excess capacity since 1997.

Intevac derives a significant proportion of its revenues from sales of equipment to manufacturers of computer disk drives and disk drive components. The disk drive industry has experienced a long period of over-supply and intensely competitive pricing. Since 1997, many of the manufacturers of hard disk drives and their component suppliers have reported substantial losses. Some of these manufacturers have gone out of business. Some of these manufacturers have been acquired by their competitors. Accordingly, the number of potential customers for Intevac's disk equipment products has been reduced. As a result of these factors, Intevac has experienced significant reductions in its quarterly revenues, and has incurred quarterly losses, since the third quarter of 1998. Intevac is not able to accurately predict when the industry conditions that have depressed our disk equipment sales will become more favorable.

Demand for capital equipment is cyclical.

Intevac's Equipment Division sells capital equipment to capital intensive industries, which sell commodity products such as disk drives and flat panel displays. These industries operate with high fixed costs. When demand for these commodity products exceeds capacity, then demand for new capital equipment such as Intevac's tends to be amplified. When supply of these commodity products exceeds capacity, then demand for new capital equipment such as Intevac's tends to be depressed. The cyclical nature of the capital equipment industry means that in some years, such as 1997, sales of new systems by the Company will be unusually high, and that in other years, such as 2000, sales of new systems by the Company will be severely depressed.

Rapid increases in areal density are reducing the number of thin-film disks required per disk drive.

Over the past few years the amount of data that can be stored on a single thin-film computer disk has been growing at approximately 100% per year. Although the number of disk drives produced has continued to increase each year, the growth in areal density has resulted in a reduction in the number of disks required per disk drive. The result has been that the number of thin-film disks used worldwide has not grown significantly since 1997. Without an increase in the number of disks required, Intevac's disk equipment sales are largely limited to upgrades of existing capacity, rather than capacity expansion. While the rapidly falling cost of storage per gigabyte is leading to new applications for disk drives beyond the traditional computer market, it is not clear to what extent the demand from these new applications will be offset by further declines in the average number of disks required per disk drive.

Our competitors are large and well financed and competition is intense.

Intevac experiences intense competition in the Equipment Division. For example, Intevac's equipment products experience competition worldwide from competitors including, Anelva Corporation, Applied Films Corporation, Ulvac Japan, Ltd. and Unaxis Holdings, Ltd., each of which have sold substantial numbers of systems worldwide. Anelva, Ulvac and Unaxis all have substantially greater financial, technical, marketing, manufacturing and other resources than Intevac. There can be no assurance that Intevac'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 Intevac's markets and develop such enhanced products.

Given the lengthy sales cycle and the significant investment required to integrate equipment into the manufacturing process, Intevac believes that once a manufacturer has selected a particular supplier's equipment for a specific application, that manufacturer generally relies upon that supplier's equipment and frequently will continue to purchase any additional equipment for that application from the same supplier. Accordingly, competition for customers in the equipment industry is intense, and suppliers of equipment may offer substantial pricing concessions and incentives to attract new customers or retain existing customers.

Competition is intense for employees in northern California.

Intevac's operating results depend in significant part upon its ability to retain and attract qualified management, engineering, marketing, manufacturing, customer support, sales and administrative personnel.

Competition in northern California for such personnel is intense. The cost of living in northern California is also extremely high, which further increases the cost and difficulty of recruiting new employees. There can be no assurance that Intevac will be successful in attracting new employees and retaining its staff. The failure to attract and retain such personnel could have an adverse effect on Intevac's business.

Business interruptions could adversely affect our business.

Intevac's operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure and other events beyond our control. The Company's facility in California is currently subject to electrical blackouts as a consequence of a shortage of available electrical power. In the event these blackouts continue or increase in severity, they could disrupt the operations of the facility. Additionally, the cost of electricity and natural gas has increased significantly. Such cost increases and any further cost increases will impact the Company's profitability.

A portion of our sales are to international customers.

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. Intevac earns a significant portion of its revenue from international sales, and there can be no assurance that any of these factors will not have an adverse effect on Intevac's business.

Intevac generally quotes and sells its products in US dollars. However, for some Japanese customers, Intevac quotes and sells its products in Japanese Yen. Intevac, from time to time, enters into foreign currency contracts in an effort to reduce the overall risk of currency fluctuations to Intevac's business. However, there can be no assurance that the offer and sale of products in foreign denominated currencies, and the related foreign currency hedging activities will not adversely affect Intevac's business.

Intevac's two principal competitors for disk sputtering equipment are based in foreign countries and have cost structures based on foreign currencies. Accordingly, currency fluctuations could cause Intevac's products to be more, or less, competitive than its competitors' products. Currency fluctuations will decrease, or increase, Intevac's cost structure relative to those of its competitors, which could impact Intevac's gross margins.

Our operating results fluctuate significantly.

Over the last eight quarters Intevac's operating loss as a percentage of net revenues has fluctuated from approximately (79%) to (8%) of net revenues. Over the same period sales per quarter have fluctuated between \$13.8 million and \$5.9 million. Intevac anticipates that its sales and operating margins will continue to fluctuate. As a result, period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

Intevac's stock price is volatile.

Intevac's stock price has experienced both significant increases in valuation, and significant decreases in valuation, over short periods of time. Intevac believes that factors such as announcements of developments related to Intevac's business, fluctuations in Intevac'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 Intevac 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 Intevac's relationships with customers and suppliers could cause the price of Intevac's Common Stock to continue 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. Any of these factors could adversely affect the market price of Intevac's Common Stock.

Intevac routinely evaluates acquisition candidates and other diversification strategies.

Intevac has completed multiple acquisitions as part of its efforts to grow and diversify its business. For example, Intevac's business was initially acquired from Varian Associates in 1991. Additionally, Intevac acquired its current gravity lubrication, CSS test equipment and rapid thermal processing product lines in three separate acquisitions. Intevac also acquired its RPC electron beam processing business in late 1997, and after two years initiated plans to close this business. Intevac intends to continue to evaluate new acquisition candidates and diversification strategies. 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, and the potential loss of the acquired company's key employees. Additionally, unanticipated expenses may be incurred relating to the integration of technologies, research and development, and administrative functions. Any future acquisitions may result in potentially dilutive issuance of equity securities, acquisition related write-offs and the assumption of debt and contingent liabilities. Any of the above factors could adversely affect Intevac's business.

Thin-film disks could be replaced by a new technology.

Intevac believes that thin-film disks will continue to be the dominant medium for data storage for the foreseeable future. However, it is possible that competing technologies may at some time reduce the demand for thin-film disks, which would adversely affect Intevac's disk equipment business.

Intevac's business is dependent on its intellectual property.

There can be no assurance that:

- any of Intevac's patent applications will be allowed or that any of the allowed applications will be issued as patents, or
- any patent owned by Intevac will not be invalidated, deemed unenforceable, circumvented or challenged, or
- the rights granted under our patents will provide competitive advantages to Intevac, or
- any of Intevac's pending or future patent applications will be issued with claims of the scope sought by Intevac, if at all, or
- others will not develop similar products, duplicate Intevac's products or design around the patents owned by Intevac, or
- foreign patent rights intellectual property laws or Intevac's agreements will protect Intevac's intellectual property rights.

Failure to protect Intevac's intellectual property rights could have an adverse effect upon Intevac's business.

From time to time Intevac has received claims that it is infringing third parties' intellectual property rights. There can be no assurance that third parties will not in the future claim infringement by Intevac with respect to current or future patents, trademarks, or other proprietary rights relating to Intevac's disk sputtering systems, flat panel 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 Intevac to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to Intevac, or at all. Any of the foregoing could have an adverse effect upon Intevac's business.

\$41 Million of convertible notes are outstanding and will mature in 2004.

In connection with the sale of \$57.5 million of its 6 1/2% Convertible Subordinated Notes Due 2004 (the "Convertible Notes") in February 1997, Intevac incurred a substantial increase in the ratio of long-term debt to total capitalization (shareholders' equity plus long-term debt). During 1999 Intevac spent \$9.7 million in cash to repurchase \$16.3 million of the Convertible Notes. The \$41.2 million of the Convertible Notes that remain outstanding as of December 31, 2000 commit Intevac to substantial principal and interest obligations. The degree to which Intevac is leveraged could have an adverse effect on Intevac's ability to obtain additional financing for working capital, acquisitions or other purposes and could make it more vulnerable to industry downturns and competitive pressures. Intevac's ability to meet its debt service obligations will be dependent on Intevac's future performance, which will be subject to financial, business and other factors affecting the operations of Intevac, many of which are beyond its control.

Intevac uses hazardous materials.

Intevac is subject to a variety of governmental regulations relating to the use, storage, discharge, handling, emission, generation, manufacture, treatment and disposal of toxic or 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 Intevac or its officers, directors or employees, suspension of production, alteration of its manufacturing process or cessation of operations. Such regulations could require Intevac to acquire expensive remediation or abatement equipment or to incur substantial expenses to comply with environmental regulations. Any failure by Intevac to properly manage the use, disposal or storage of, or adequately restrict the release of, hazardous or toxic substances could subject Intevac to significant liabilities.

A majority of the Common Stock outstanding is controlled by the directors and executive officers of Intevac.

Based on the shares outstanding on December 31, 2000, the present directors and their affiliates and executive officers, in the aggregate, beneficially own a majority of the outstanding shares of Common Stock. As a result, these shareholders, acting together, are able to effectively control all matters requiring approval by the shareholders of Intevac, including the election of a majority of the directors and approval of significant corporate transactions.

## **ITEM 2. PROPERTIES**

Intevac leases its 119,583 square feet facility in Santa Clara, California. The lease for this building expires in March 2007. Intevac has an option to extend the lease for an additional five-year period, with a monthly base rent to be negotiated by Intevac and the lessor. If Intevac and the lessor are unable to reach agreement with respect to such monthly base rent, an appraisal process set forth in the lease will determine the monthly base rent for the extension. Intevac also leases a facility of approximately 2,400 square feet in Singapore to house the Singapore customer support organization. This lease expires in December 2001. Intevac believes that its current facilities are suitable and adequate for its current and foreseeable operations. Intevac operates with one full manufacturing shift and one partial manufacturing shift. Intevac believes that it currently has sufficient productive capacity to meet its current needs.

## **ITEM 3. LEGAL PROCEEDINGS**

On June 12, 1996 two Australian Army Black Hawk Helicopters collided in midair during nighttime maneuvers. Eighteen Australian servicemen perished and twelve were injured. The Company was named as a defendant in a lawsuit related to this crash. The lawsuit was filed in Stamford, Connecticut Superior Court on June 10, 1999 by Mark Durkin, the administrator of the estates of the deceased crewmembers, the injured crewmembers and the spouses of the deceased and/or injured crewmembers. Included in the suit's allegations are assertions that the crash was caused by defective night vision goggles. The suit names three US manufacturers of military night vision goggles, of which Intevac was one. The suit also names the manufacturer of the pilot's helmets, two manufacturers of night vision system test equipment and the

manufacturer of the helicopter. The suit claims damages for 13 personnel killed in the crash, 5 personnel injured in the crash and spouses of those killed or injured.

It is known that the Australian Army established a Board of Inquiry to investigate the accident and that the Board of Inquiry concluded that the accident was not caused by defective night vision goggles. Preliminary investigations lead the Company to believe that it has meritorious defenses against the Durkin suit. However, there can be no assurance that the resolution of the suit will not have a material adverse effect on the Company's business, operating results and financial condition.

On January 5, 2000, the Company's RPC Technologies, Inc. subsidiary was named as a defendant in a lawsuit filed in United States District Court in Texas. The lawsuit was filed by Reita Miller, Executrix of the estate of Thomas O. Miller, and family members of Mrs. Miller. The suit named RPC Technologies, Inc. and RPC Industries, Inc. as defendants. Included in the suits allegations were assertions that Thomas O. Miller protracted leukemia and died as the result of working in and around Broad Beam accelerators manufactured by RPC Industries, Inc and installed at Mr. Miller's employer, Tetra Pak. The suit was settled in early 2001 by the Company's insurers without cost to the Company.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS**

No matters were submitted to a vote of security-holders during the fourth quarter of the fiscal year covered by this Annual Report on Form 10-K.

## EXECUTIVE OFFICERS AND DIRECTORS

Certain information about Intevac's directors and executive officers is listed below:

NAME ----	AGE ---	POSITION -----
Executive Officers and Directors:		
Norman H. Pond.....	62	Chairman of the Board
Ajit Rode.....	48	Chief Executive Officer & President of Equipment Division
Charles B. Eddy III.....	50	Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary
Verle Aebi.....	46	President of Photonics Division
Edward Durbin(1).....	73	Director
Robert D. Hempstead.....	57	Director
David N. Lambeth(1)(2).....	53	Director
H. Joseph Smead(2).....	75	Director

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(1) Member of Audit Committee

(2) Member of Compensation Committee

Mr. Pond is a founder of Intevac and has served as Chairman of the Board since February 1991. Mr. Pond served as President and Chief Executive Officer from February 1991 until July 2000. Before joining Intevac, from 1988 to 1990, Mr. Pond served as President and Chief Operating Officer of Varian Associates, Inc., 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 BS in physics from the University of Missouri at Rolla and a MS in physics from the University of California at Los Angeles.

Dr. Rode has served as Chief Executive Officer of the Company and President of the Equipment Division since July 2000. Before joining Intevac, Dr. Rode served as Senior Vice President & General Manager of Semiconductor Systems, Inc., a division of FSI International, a publicly held supplier of photoresist processing equipment to the semiconductor, thin-film head and multi-chip module markets. From 1997 to 1998, Dr. Rode was employed by Spectrian, where he served as Vice President of the Multi-Carrier Power Amplifier product group. From 1995 to 1997, Dr. Rode was employed by Novellus Systems as General Manager of the CVD Business Unit. Dr. Rode holds a Bachelor of Technology in electrical engineering from the Indian Institute of Technology, a MS and Ph.D. in electrical engineering from Oregon State University and a MBA from University of Portland.

Mr. Eddy has served as Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary of Intevac 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 from 1974 to 1983 where he served in a variety of positions, including controller and plant manager. Mr. Eddy holds a BS in engineering science from the University of Virginia and a MBA from Dartmouth College.

Mr. Aebi has served as President of the Photonics Division since July 2000. Mr. Aebi served as General Manager of the Photonics Division 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 product development in the areas of advanced photocathodes and image intensifiers. Mr. Aebi holds a BS in physics and an MS in electrical engineering from Stanford University.

Mr. Durbin has served as a Director of Intevac since February 1991. Mr. Durbin joined Kaiser Aerospace and Electronics Corporation, a privately held manufacturer of electronic and electro-optical systems, in 1975

and served as Vice Chairman with responsibility for marketing and business development until January 2001. Mr. Durbin holds a BS in electrical engineering from The Cooper Union and a MS in electrical engineering from the Polytechnic Institute of Brooklyn.

Dr. Hempstead has served as a Director of Intevac since March 1997 and served as Chief Operating Officer of Intevac from April 1996 through June 1999. Before joining Intevac, 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 is currently Chief Technology Officer at Veeco Instruments. Dr. Hempstead holds a BS and MS in electrical engineering from Massachusetts Institute of Technology and a Ph.D. in physics from the University of Illinois.

Dr. Lambeth has served as a Director of Intevac since May 1996. Dr. Lambeth has been Professor of both Electrical and Computer Engineering and Material Science Engineering at Carnegie Mellon University since 1989. Dr. Lambeth was Associate Director of the Data Storage Systems at Carnegie Mellon University from 1989 to 1999. Since 1988, Dr. Lambeth has been the owner of Lambeth Systems, an engineering consulting and research 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 BS 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 Intevac since February 1991. Dr. Smead joined Kaiser Aerospace and Electronics Corporation in 1974 and served as Kaiser's President from 1974 until October 1, 1997. Dr. Smead served as President and Chairman of the Board of Directors of K Systems, Inc., Kaiser's parent company, from 1977 until October 1, 1997. Dr. Smead served as Chairman of the Board of Directors of Kaiser until December 31, 1999. Dr. Smead resigned as a director of Kaiser and its subsidiaries on December 1, 2000. Dr. Smead holds a BS in electrical engineering from the University of Colorado, a MS in electrical engineering from the University of Washington and a Ph.D. in electrical engineering from Purdue University.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Intevac's Common Stock commenced trading on the Nasdaq National Market on November 21, 1995 and is traded under the symbol "IVAC." As of December 31, 2000, there were approximately 2,000 holders of record of the 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.

	HIGH	LOW
	-----	-----
Fiscal 1999		
First Quarter.....	\$10.125	\$5.625
Second Quarter.....	\$ 6.250	\$4.125
Third Quarter.....	\$ 6.125	\$4.500
Fourth Quarter.....	\$ 4.625	\$2.750
Fiscal 2000		
First Quarter.....	\$ 8.000	\$3.500
Second Quarter.....	\$ 4.625	\$2.688
Third Quarter.....	\$ 7.090	\$3.313
Fourth Quarter.....	\$ 5.130	\$3.130

### DIVIDEND POLICY

Intevac 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.

## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial data of Intevac is qualified by reference to and should be read in conjunction with the consolidated financial statements of Intevac, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations, each appearing elsewhere in this report.

	YEAR ENDED DECEMBER 31,				
	2000	1999	1998	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Net revenues.....	\$ 36,049	\$ 42,962	\$ 95,975	\$133,207	\$88,232
Cost of net revenues.....	34,059	40,410	71,717	91,255	55,652
Gross profit.....	1,990	2,552	24,258	41,952	32,580
Operating expenses:					
Research and development.....	10,576	14,136	12,743	10,716	8,425
Selling, general and administrative.....	4,415	7,226	10,879	11,399	8,391
Restructuring and other.....	(638)	3,069	1,088	--	--
Acquired in-process research and development.....	--	--	--	299	5,835
Total operating expenses.....	14,353	24,431	24,710	22,414	22,651
Operating income (loss).....	(12,363)	(21,879)	(452)	19,538	9,929
Interest expense.....	(3,033)	(3,711)	(4,187)	(3,581)	(175)
Interest income and other income, net.....	3,072	3,632	3,176	3,268	1,569
Income (loss) from continuing operations before income taxes.....	(12,324)	(21,958)	(1,463)	19,225	11,323
Provision for (benefit from) income taxes....	--	(8,344)	(882)	6,728	6,350
Income (loss) from continuing operations.....	(12,324)	(13,614)	(581)	12,497	4,973
Income from discontinued operations.....	--	--	1,005	--	--
Income from repurchase of convertible notes.....	--	3,844	--	--	--
Net income (loss).....	\$(12,324)	\$(9,770)	\$ 424	\$ 12,497	\$ 4,973
Basic earnings per share:					
Income (loss) from continuing operations...	\$ (1.04)	\$ (1.16)	\$ (0.05)	\$ 1.00	\$ 0.40
Net income (loss).....	\$ (1.04)	\$ (0.83)	\$ 0.04	\$ 1.00	\$ 0.40
Shares used in per share calculations.....	11,803	11,777	12,052	12,514	12,311
Diluted earnings per share:					
Income (loss) from continuing operations...	\$ (1.04)	\$ (1.16)	\$ (0.05)	\$ 0.94	\$ 0.39
Net income (loss).....	\$ (1.04)	\$ (0.83)	\$ 0.03	\$ 0.94	\$ 0.39
Shares used in per share calculations.....	11,803	11,777	12,354	15,385	12,901
CONSOLIDATED BALANCE SHEET DATA:					
Cash, cash equivalents and short-term investments.....	\$ 38,403	\$ 40,895	\$ 60,916	\$ 71,142	\$ 938
Working capital.....	41,093	51,579	77,774	78,025	15,847
Total assets.....	86,670	94,382	122,976	147,794	68,085
Long-term debt.....	41,245	43,188	59,461	59,480	730
Total shareholder's equity.....	17,804	29,623	40,436	42,435	33,736

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains forward-looking statements which involve risks and uncertainties. Words such as "believes," "expects," "anticipates" and the like indicate forward-looking statements. Intevac's actual results may differ materially from the results discussed in the forward-looking statements for a variety of reasons, including those set forth under "Risk Factors Affecting Intevac's Business" and should be read in conjunction with the Consolidated Financial Statements and related Notes contained elsewhere in this Annual Report on Form 10-K.

### RESULTS OF OPERATIONS

**Net revenues.** Net revenues consist primarily of sales of equipment used to manufacture thin-film disks for computer hard disk drives and flat panel displays, related equipment and system components ("Equipment") and contract research and development related to the development of highly sensitive electro-optical devices under government sponsored R&D contracts and sales of derivative products ("Photonics"). Net revenues from system sales are recognized upon customer acceptance. Net revenues from sales of related equipment and system components are recognized upon product shipment. Contract research and development revenue is recognized in accordance with contract terms, typically as costs are incurred. Net revenues totaled \$36.0 million, \$43.0 million and \$96.0 million in 2000, 1999 and 1998, respectively. Equipment revenues totaled \$28.8 million, \$36.0 million and \$90.6 million in 2000, 1999 and 1998, respectively. Equipment revenues decreased in 2000 from 1999 primarily due to a decrease in sales of disk manufacturing systems, and to a lesser extent flat panel manufacturing systems, partially offset by increased sales of system upgrades and components. Equipment revenues decreased in 1999 from 1998 primarily due to a decrease in net revenues from disk sputtering systems and related equipment and to a lesser extent a decrease in net revenues from electron beam systems and flat panel display manufacturing equipment. Photonics revenues totaled \$7.2 million, \$7.0 million and \$5.7 million in 2000, 1999 and 1998, respectively. Photonics revenues increased from 1999 to 2000 as the result of an increase in product shipments, which was partially offset by a lower level of revenues from contract research and development. Photonics revenues increased from 1998 to 1999 as the result of an increase in revenues from research and development contracts. Intevac's backlog of orders at December 31, 2000 was \$42.1 million as compared to a December 31, 1999 order backlog of \$24.6 million.

In 2000, MMC Technology, Seagate, Westt and Matsubo (Intevac's Japanese distributor) each accounted for more than 10% of Intevac's consolidated revenues and in aggregate accounted for 56% of net revenues. In 1999, Matsubo, Seagate and Lockheed Martin each accounted for more than 10% of Intevac's consolidated revenues and in aggregate accounted for 66% of net revenues. In 1998, Matsubo, HMT Technology and MMC Technology each accounted for more than 10% of Intevac's consolidated revenues and in aggregate accounted for 71% of net revenues.

International sales totaled \$9.6 million, \$25.7 million and \$51.0 million in 2000, 1999 and 1998, respectively. International sales accounted for 27%, 60% and 53% of net revenues in 2000, 1999 and 1998, respectively. The decrease in international sales from 1999 to 2000 was primarily due to a decrease in net revenues from disk manufacturing equipment. The decrease in foreign sales from 1998 to 1999 was the result of decreased sales of equipment, primarily disk sputtering systems, and to a lesser extent, decreased sales of electron beam systems, which were offset partially by an increase in sales of rapid thermal processing systems used to produce flat panel displays. Substantially all of Intevac's international sales are to customers in the Far East.

**Gross margin.** Cost of net revenues consists primarily of purchased materials, fabrication, assembly, test, installation, warranty costs, royalties, provisions for inventory reserves, scrap and costs attributable to contract research and development. Gross margin was 6%, 6% and 25% in 2000, 1999, and 1998, respectively.

Gross margin in the Equipment Division was 12%, 7% and 28% in 2000, 1999 and 1998, respectively. Equipment Division gross margin during 2000 was negatively impacted by establishment of \$5.1 million of reserves related to slow moving equipment inventory and a \$0.8 million write-off of goodwill related to electronically swept source technology. 2000 Equipment Division gross margin excluding the effect of these

two items would have been 32%. Gross margin declined in 1999 from 1998 as the result of under-absorption of manufacturing overhead due to low manufacturing volume, the sale of four used disk sputtering systems at heavily discounted prices, high initial costs to complete Intevac's first MDP-250K disk sputtering system and first production rapid thermal processing system, write-down of RPC inventory related to the plan to discontinue operations, payment of \$0.5M as part of the settlement of a patent claim, establishment of a \$0.4 million cost to market reserve on a used MDP-250B disk sputtering system remaining in inventory and an increase in the percentage of total revenue derived from research and development contracts.

Gross margin in the Photonics Division was (8%), 7% and 12% in 2000, 1999 and 1998, respectively. Photonics gross margin declined from 1998 to 2000 as the result of an increased proportion of Photonics revenue resulting from cost-sharing contracts, as opposed to, fully funded research and development contracts.

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 manufacturing equipment and flat panel display manufacturing equipment, and research by the Photonics Division. Company funded research and development expense totaled \$10.6 million, \$14.1 million and \$12.7 million in 2000, 1999 and 1998, respectively. The decrease from 1999 to 2000 was primarily the result of lower expenses related to the development of disk manufacturing products. The increase from 1998 to 1999 was caused primarily by higher expenses related to development of flat panel manufacturing equipment and photonics products.

Research and development expenses do not include costs of \$6.0 million, \$5.9 million and \$4.8 million in 2000, 1999 and 1998, respectively, related to Photonics contract research and development. These expenses are included in cost of goods sold. Research and development expenses also do not include costs of \$0.7 million, \$1.1 million and \$1.8 incurred by Intevac in 2000, 1999 and 1998, respectively, and reimbursed under the terms of research and development cost sharing agreements related to development of disk and flat panel manufacturing equipment.

Selling, general and administrative. Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial, travel, management, legal and professional services and bad debt expense. Domestic equipment sales are made by the Equipment Division direct sales force. International equipment sales are made by the Company's exclusive distributor in Japan, Matsubo; the Company's subsidiary in Singapore; and by sales representatives in Korea and Taiwan. The Company's distributor and sales representatives typically provide sales, installation, warranty and ongoing customer support. Through the second quarter of 2000, Intevac marketed its flat panel manufacturing equipment to Far East customers through its Japanese joint venture, IMAT, after which Intevac and its joint venture partner, Matsubo, transferred IMAT's activities and employees to Matsubo and terminated the operations of IMAT. Photonics sales are made by the of the Photonics Division direct sales force.

Selling, general and administrative expense totaled \$4.4 million, \$7.2 million and \$10.9 million in 2000, 1999 and 1998, respectively, representing 12%, 17% and 11% of net revenues. The primary reasons for the decrease from 1999 to 2000 were a \$1.5 million credit to bad debt expense and a \$1.2 million reduction in expense related to elimination of the electron beam processing equipment product line. The primary reason for the decrease from 1998 to 1999 was a lower level of selling, general and administrative expense in the Equipment Division. The lower level of expense was primarily due to a decline in selling, general and administrative staff from 77 employees to 37 employees during 1999 as a result of a March 1999 reduction in force, attrition, and the reassignment of certain administrative employees to operations.

Restructuring and other expense (gain). Restructuring and other expense (gain) was (\$0.6) million, \$3.1 million and \$1.1 million in 2000, 1999 and 1998, respectively.

During the fourth quarter of 1999, Intevac adopted a plan to discontinue operations at its RPC Technologies, Inc. electron beam processing equipment subsidiary and to close RPC's facility in Hayward, California. Twenty-six employees out of Intevac's staff of contract and regular personnel were terminated as a result. Intevac incurred a charge of \$1,639,000 related to this plan. The significant components of this charge included \$679,000 for inventory write-downs which were charged to cost of revenues, \$264,000 for fixed asset

write-offs, \$200,000 for closure of the facility, \$163,000 for employee severance costs, \$161,000 for future rent due on the facility and \$152,000 for write-off of intangibles. In the first quarter of 2000, Intevac sold certain assets of the RPC Technologies, Inc. subsidiary to Quemex Technology. Proceeds from the sale included a cash payment, assumption of the Hayward facility lease and assumption of certain other liabilities. Excluded from the sale were two previously leased systems and three completed systems remaining in inventory. The Company was able to reverse the portions of the restructuring reserve established to provide for future rents due on the facility and for the closure of the facility. However, since Intevac retained ownership of the two leased systems, the Company established an equivalent reserve to provide for any residual value at the end of the leases.

During the third quarter of 1999, Intevac adopted an expense reduction plan that included closing one of the buildings at its Santa Clara facility and a reduction in force of 7 employees out of Intevac's staff of contract and regular personnel. The reductions took place at Intevac's facilities in Santa Clara, California. Intevac incurred a charge of \$2,225,000 related to the expense reduction plan. The significant components of this charge included \$873,000 for future rent due on the building (net of expected sublease income), \$160,000 for costs associated with maintaining the building through May 2000 and \$1,192,000 for the write-off of leasehold improvements and other costs associated with restructuring. In the fourth quarter of 1999, \$97,000 of the restructuring reserve was reversed due to lower than expected costs on the closure of the facility. During first quarter of 2000, the Company vacated approximately 47,000 square feet of its Santa Clara Headquarters and negotiated a lease termination with its landlord, which released the Company from the obligation to pay any rent after April 30, 2000. As a result, the Company reversed \$615,000 of previously accrued restructuring expense relating to future rents on the vacated space. During the third quarter of 2000, the Company completed all activities related to closing the vacated portion of the building and reversed the remaining \$23,000 of the restructuring reserve.

During the first quarter of 1999, Intevac implemented a reduction in force of 17 employees out of Intevac's staff of contract and regular personnel. The reductions took place at Intevac's facilities in Santa Clara, California. Intevac incurred a charge of \$115,000 related to severance costs for the affected employees. As of December 31, 1999, all of the severance had been paid.

During the third quarter of 1998, Intevac implemented a reduction in force of 27 employees out of Intevac's staff of contract and regular personnel. The reductions took place at Intevac's facilities in Santa Clara, CA; Hayward, CA; Singapore; and Taiwan. Intevac incurred a charge of \$71,000 related to severance costs for the affected employees.

During the first quarter of 1998, Intevac adopted an expense reduction plan that included a reduction in force of 90 employees out of Intevac's staff of contract and regular personnel. The reductions took place at Intevac's facilities in Santa Clara, CA; Los Gatos, CA; Rocklin, CA; and Taiwan. Additionally, Intevac relocated its RTP Operation from Rocklin to Intevac's Santa Clara headquarters and closed the Rocklin facility. Intevac incurred a charge of \$1,164,000 related to the expense reduction plan. The significant components of this charge included \$290,000 for closure of the Rocklin facility, \$462,000 for the balance of the rent due on the lease for such facility and \$392,000 for employee severance costs. Closure of the facility was completed in the second quarter of 1998. In the fourth quarter of 1998, \$147,000 of the restructuring reserve was reversed due to lower than expected costs incurred on the closure of the Rocklin facility. In the first quarter of 1999, Intevac negotiated an early termination of its lease commitment in Rocklin, CA, which resulted in Intevac reversing the remaining \$132,000 of the restructuring reserve.

Interest expense. Interest expense consists primarily of interest on the Convertible Notes issued in the first quarter of 1997, and to a lesser extent, interest on approximately \$2.0 million of long-term debt related to the purchase of Cathode Technology in 1996. Interest expense totaled \$3.0 million, \$3.7 million and \$4.2 million in 2000, 1999 and 1998, respectively. The decline in interest expense was primarily the result of the repurchase by Intevac of \$16.3 million of its 6.5% Convertible Notes Due 2004 (the "Convertible Notes") during 1999. The repurchase reduced the balance outstanding of the Convertible Notes to \$41.2 million.

Interest income and other, net. Interest income and other, net totaled \$3.1 million, \$3.6 million and \$3.2 million in 2000, 1999 and 1998, respectively. Interest income and other, net in 2000 consisted of

\$2.3 million of interest income on investments, \$0.4 million of dividends on Intevac's interest in 601 California Avenue LLC, \$0.2 million of gains on foreign currency forward contracts and \$0.2 million of early payment discounts and other income. Interest income and other, net in 1999 consisted of \$2.1 million of interest income on Intevac's investments, \$1.1 million of dividends on Intevac's interest in 601 California Avenue LLC, and \$0.5 million of gains on foreign currency forward contracts. Interest income and other, net in 1998 consisted of \$2.8 million of interest income on Intevac's investments, \$0.7 million of dividends on Intevac's interest in the 601 California Avenue LLC, \$0.4 million of deferred income related to the sale of Intevac's interest in Chorus Corporation, early payment discounts, and \$0.9 million of losses on foreign currency forward contracts.

Discontinued operations. In March 1995, Intevac adopted a formal plan to discontinue its night vision business and sold its night vision business to Litton Systems, Inc. in May 1995. In 1998, Intevac recognized net income from discontinued operations of \$1.0 million, net of income taxes, from the reversal of reserves established at the time of the sale and from payment received from Litton for excess warranty reserves transferred during the sale of the night vision business.

6 1/2% Convertible Subordinated Notes Due 2004. In July 1998, Intevac's Board of Directors approved the repurchase in the open market of up to \$19.0 million of the Convertible Notes. Intevac repurchased \$16.3 million of its Convertible Notes during 1999 from which it recognized a gain of \$3.8 million, net of applicable taxes.

Provision for (benefit from) income taxes. The Company's estimated effective tax rate 2000 was 0%. The Company did not accrue a tax benefit during 2000 due to the inability to realize additional refunds from loss carry-backs. As of December 31, 2000 the Company's deferred tax assets totaled \$7.7 million. The Company believes that it is more likely than not that it will earn sufficient taxable income in the future to realize the value of these deferred tax assets. If in the future the Company determines it is more likely that it will not earn taxable income in the future sufficient to realize the value of these deferred tax assets then the Company will expense the value of the deferred tax assets not likely to be realized.

For the year ended December 31, 1999, Intevac realized a \$8.3 million tax benefit provision, equivalent to a 38% annual tax rate, on a pretax loss from continuing operations of \$22.0 million. Intevac's 1999 effective tax rate differed from the applicable statutory rates primarily due to benefits from tax-exempt interest income, which were partially offset by nondeductible goodwill amortization. A net deferred tax asset of \$7.7 million is reflected in the financial statements at December 31, 1999. Management believes it is more likely than not that Intevac will realize the benefit of this asset.

For the year ended December 31, 1998, Intevac realized a \$0.9 million tax benefit provision, equivalent to a 60% annual tax rate, on a pretax loss from continuing operations of \$1.5 million. Intevac's 1998 tax benefit was primarily due to tax-exempt interest income and benefits from Intevac's foreign sales corporation, partially offset by non-deductible goodwill amortization.

## **LIQUIDITY AND CAPITAL RESOURCES**

Operating activities in 2000 provided cash of \$22,000, primarily as a result of the net loss incurred being offset by an increase in customer advances, a refund of federal taxes paid in prior years, depreciation, amortization and an increase in accrued liabilities. Investing activities in 2000 provided cash of \$0.8 million primarily due to the net sale of \$3.8 million of investments, which was partially offset by the purchase of \$3.0 million of property and equipment. Financing activities in 2000 provided cash of \$0.5 million from the sale of Intevac's stock to employees under the employee stock option and employee stock purchase plans.

At December 31, 2000, Intevac had \$38.4 million of cash, cash equivalents and short-term investments. Intevac intends to undertake approximately \$6 million in capital expenditures during the next 12 months and believes the existing cash and cash equivalent balances will be sufficient to meet its cash requirements for the next twelve months and for the foreseeable future.

In January 2001, securities representing \$6 million of the Company's portfolio of short-term investments were either downgraded or put on credit watch by Standard and Poors ("S&P"). \$2 million of the \$6 million is invested in commercial paper issued by Pacific Gas & Electric, whose financial condition has been

negatively impacted by the California energy crisis. The other \$4 million is invested in securities guaranteed by ACA Financial Guaranty Corporation ("ACA"). ACA's credit rating was downgraded when it failed to raise additional equity capital. ACA recently announced that a group of investors has agreed to provide ACA with new equity capital. S&P announced that upon funding of this commitment, S&P will remove ACA from CreditWatch with negative implications and affirm the single "A" financial strength rating of ACA. The Company is closely monitoring the situation and will determine during the first quarter of 2001 if the establishment of any reserves is required related to these securities.

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest rate risk. The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio. The Company does not use derivative financial instruments in its investment portfolio. The Company places its investments with high quality credit issuers and, by policy, limits the amount of credit exposure to any one issuer. Short-term investments typically consist of investments in commercial paper and market auction rate bonds.

The table below presents principal amounts and related weighted-average interest rates by year of maturity for the Company's investment portfolio and debt obligations.

	2001	2002	2003	2004	2005	BEYOND	TOTAL	FAIR VALUE
	-----	----	----	-----	----	-----	-----	-----
( IN THOUSANDS )								
Cash equivalents								
Variable rate.....	\$ 2,887	--	--	--	--	--	\$ 2,887	\$ 2,887
Average rate.....	6.58%	--	--	--	--	--		
Short-term investments								
Variable rate.....	\$33,787	--	--	--	--	--	\$33,787	\$33,787
Average rate.....	6.94%	--	--	--	--	--		
Total investments								
Securities.....	\$36,674	--	--	--	--	--	\$36,674	\$36,674
Average rate.....	6.91%	--	--	--	--	--		
Long-term debt								
Fixed rate.....	--	--	--	\$41,245	--	--	\$41,245	\$19,798
Average rate.....	6.50%	6.50%	6.50%	6.50%	--	--		

Foreign exchange risk. From time to time, the Company enters into foreign currency forward exchange contracts to economically hedge certain of its anticipated foreign currency transaction, translation and re-measurement exposures. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on the Company's operating results. At December 31, 2000, the Company did not have foreign currency forward exchange contracts.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**INTEVAC, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

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## **REPORT OF GRANT THORNTON LLP, INDEPENDENT AUDITORS**

The Board of Directors and Shareholders  
Intevac, Inc.

We have audited the accompanying consolidated balance sheet of Intevac, Inc. as of December 31, 2000 and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the year then ended. Our audit also included the 2000 data in the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intevac, Inc. at December 31, 2000 and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2000 data in the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

**GRANT THORNTON LLP**

San Jose, California  
January 26, 2001

## REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Shareholders  
Intevac, Inc.

We have audited the accompanying consolidated balance sheet of Intevac, Inc. as of December 31, 1999 and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 1999. Our audits also included the 1998 and 1999 data in the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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, 1999 and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the 1998 and 1999 data in the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

**ERNST & YOUNG LLP**

San Jose, California  
January 21, 2000

**INTEVAC, INC.**

**CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)**

	DECEMBER 31,	
	2000	1999
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	\$ 4,616	\$ 3,295
Short-term investments.....	33,787	37,600
Trade and other accounts receivable, net of allowances of \$114 and \$1,713 at December 31, 2000 and 1999, respectively.....	9,593	5,744
Income taxes recoverable.....	--	5,463
Inventories, including \$3,033 and \$0 at customers at December 31, 2000 and 1999, respectively.....	15,833	15,965
Prepaid expenses and other current assets.....	844	512
Deferred tax assets.....	4,041	4,571
	68,714	73,150
Property, plant, and equipment, at cost:		
Leasehold improvements.....	5,705	6,441
Machinery and equipment.....	19,836	18,017
	25,541	24,458
Less accumulated depreciation and amortization.....	14,481	12,083
	11,060	12,375
Investment in 601 California Avenue LLC.....	2,431	2,431
Goodwill, net of amortization of \$6,554 and \$4,516 at December 31, 2000 and 1999, respectively.....	--	2,038
Other intangibles, net of amortization of \$2,434 and \$2,374 at December 31, 2000 and 1999, respectively.....	7	67
Debt issuance costs, net of amortization of \$1,529 and \$1,285 at December 31, 2000 and 1999, respectively.....	774	1,018
Deferred tax assets and other long term assets.....	3,684	3,303
	\$86,670	\$94,382
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Book overdraft.....	\$ 814	\$ 332
Notes payable.....	1,904	--
Accounts payable.....	1,943	1,014
Accrued payroll and related liabilities.....	1,534	1,533
Other accrued liabilities.....	5,109	8,841
Customer advances.....	16,317	9,851
	27,621	21,571
Convertible notes.....	41,245	41,245
Other long-term debt.....	--	1,943
Commitments.....	--	--
Shareholders' equity:		
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 -- 11,844 and 11,715 at December 31, 2000 and 1999, respectively.....	18,675	18,170
Retained earnings (accumulated deficit).....	(871)	11,453
	17,804	29,623
	\$86,670	\$94,382
	=====	=====

See accompanying notes.

**INTEVAC, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
Net revenues.....	\$ 36,049	\$ 42,962	\$95,975
Cost of net revenues.....	34,059	40,410	71,717
Gross profit.....	1,990	2,552	24,258
Operating expenses:			
Research and development.....	10,576	14,136	12,743
Selling, general, and administrative.....	4,415	7,226	10,879
Restructuring and other.....	(638)	3,069	1,088
Total operating expenses.....	14,353	24,431	24,710
Operating income (loss).....	(12,363)	(21,879)	(452)
Interest expense.....	(3,033)	(3,711)	(4,187)
Interest income.....	2,341	2,100	2,832
Other income and expense, net.....	731	1,532	344
Income (loss) from continuing operations before income taxes.....	(12,324)	(21,958)	(1,463)
Provision for (benefit from) income taxes.....	--	(8,344)	(882)
Income (loss) from continuing operations.....	(12,324)	(13,614)	(581)
Discontinued operations:			
Gain from discontinued operations, net of applicable income taxes of \$495.....	--	--	1,005
Extraordinary item:			
Gain from repurchase of convertible notes, net of applicable income taxes of \$2,355.....	--	3,844	--
Net income (loss).....	\$(12,324)	\$ (9,770)	\$ 424
Other comprehensive income:			
Unrealized foreign currency translation adjustment.....	--	--	122
Total comprehensive income (loss).....	\$(12,324)	\$ (9,770)	\$ 546
	=====	=====	=====
Basic earnings per share:			
Income (loss) from continuing operations.....	\$ ( 1.04)	\$ ( 1.16)	\$ ( 0.05)
Net income (loss).....	\$ ( 1.04)	\$ ( 0.83)	\$ 0.04
Shares used in per share amounts.....	11,803	11,777	12,052
Diluted earnings per share:			
Income (loss) from continuing operations.....	\$ ( 1.04)	\$ ( 1.16)	\$ ( 0.05)
Net income (loss).....	\$ ( 1.04)	\$ ( 0.83)	\$ 0.03
Shares used in per share amounts.....	11,803	11,777	12,354

See accompanying notes.

**INTEVAC, INC.**

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

	COMMON STOCK		ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINED EARNINGS (ACCUM. DEFICIT)	TOTAL STOCKHOLDER'S EQUITY
	SHARES	AMOUNT			
Balance at December 31, 1997.....	12,154	\$17,336	\$ --	\$ 25,099	\$ 42,435
Sale of common stock under stock option plan.....	39	130	--	--	130
Sale of common stock under employee stock purchase plan.....	151	1,001	--	--	1,001
Repurchase of common stock.....	(457)	(670)	--	(3,126)	(3,796)
Income tax benefits realized from activity in employee stock plans.....	--	120	--	--	120
Change in foreign currency translation adjustments.....	--	--	122	--	122
Net income.....	--	--	--	424	424
Balance at December 31, 1998.....	11,887	\$17,917	\$ 122	\$ 22,397	\$ 40,436
Sale of common stock under stock option plan.....	27	38	--	--	38
Sale of common stock under employee stock purchase plan.....	122	684	--	--	684
Repurchase of common stock.....	(321)	(491)	--	(1,174)	(1,665)
Income tax benefits realized from activity in employee stock plans.....	--	22	--	--	22
Change in foreign currency translation adjustments.....	--	--	(122)	--	(122)
Net loss.....	--	--	--	(9,770)	(9,770)
Balance at December 31, 1999.....	11,715	\$18,170	\$ --	\$ 11,453	\$ 29,623
Sale of common stock under stock option plan.....	20	58	--	--	58
Sale of common stock under employee stock purchase plan.....	109	418	--	--	418
Income tax benefits realized from activity in employee stock plans.....	--	29	--	--	29
Net loss.....	--	--	--	(12,324)	(12,324)
Balance at December 31, 2000.....	11,844	\$18,675	\$ --	\$ (871)	\$ 17,804

See accompanying notes.

**INTEVAC, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(IN THOUSANDS)

	YEARS ENDING DECEMBER 31,		
	2000	1999	1998
<b>OPERATING ACTIVITIES</b>			
Income (loss) from continuing operations.....	\$ (12,324)	\$ (13,614)	\$ (581)
Gain from discontinued operations & extraordinary item.....	--	3,844	1,005
Net income (loss).....	(12,324)	(9,770)	424
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by (used in) operating activities:			
Depreciation.....	3,721	3,805	5,244
Amortization of intangibles.....	2,342	1,578	2,130
Gain on sale of Chorus investment.....	--	--	(395)
Gain on sale of discontinued operations.....	--	--	(794)
Gain on purchase of convertible notes.....	--	(6,199)	--
(Gain)/loss on IMAT investment.....	125	(39)	206
Restructuring and other charges -- non-cash portion.....	856	428	506
Loss on disposal of equipment.....	2	336	206
Changes in assets and liabilities:			
Accounts receivable.....	1,614	(1,038)	(535)
Inventory.....	(343)	4,147	11,818
Prepaid expenses and other assets.....	(332)	586	(1,651)
Accounts payable.....	929	(1,020)	(2,551)
Accrued payroll and other accrued liabilities.....	(3,034)	1,287	(3,049)
Customer advances.....	6,466	(1,779)	(16,617)
Total adjustments.....	12,346	2,092	(5,482)
Net cash and cash equivalents provided by (used in) operating activities.....	22	(7,678)	(5,058)
<b>INVESTING ACTIVITIES</b>			
Purchase of investments.....	(116,271)	(50,880)	(56,500)
Proceeds from sales and maturities of investments.....	120,084	70,205	46,286
Purchase of equipment.....	(2,990)	(1,736)	(2,898)
Proceeds from sale of Chorus Investment.....	--	--	395
Net cash and cash equivalents provided by (used in) investing activities.....	823	17,589	(12,717)
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of common stock.....	476	722	1,131
Repurchase of common stock.....	--	(1,665)	(3,796)
Repurchase of Intevac convertible notes.....	--	(9,664)	--
Net cash and cash equivalents provided by (used in) financing activities.....	476	(10,607)	(2,665)
Net increase (decrease) in cash and cash equivalents.....	1,321	(696)	(20,440)
Cash and cash equivalents at beginning of period.....	3,295	3,991	24,431
Cash and cash equivalents at end of period.....	\$ 4,616	\$ 3,295	\$ 3,991
Cash paid (received) for:			
Interest.....	\$ 2,789	\$ 3,555	\$ 3,481
Income taxes.....	2	--	4,065
Income tax refund.....	(5,803)	(3,099)	--
Other non-cash changes:			
Inventories transferred to (from) property, plant and equipment.....	\$ 304	\$ 1,942	\$ (767)
Income tax benefit realized from activity in employee stock plans.....	29	22	120

See accompanying notes.

# INTEVAC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. BUSINESS AND NATURE OF OPERATIONS

Intevac, Inc.'s ("Intevac" or the "Company") Equipment Division is a leading supplier of 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 Equipment Division also realizes revenues from the sales of disk lubrication equipment and flat panel display ("FPD") manufacturing equipment. Upgrades, spare parts and after-sale service are also sold to purchasers of Intevac's equipment, and sales of components are made to other manufacturers of vacuum equipment. The Company sells and markets its products directly in the United States and Singapore, and through an exclusive distributor in Japan and sales representatives in Korea and Taiwan. The Company supports its customers in Southeast Asia through its wholly owned subsidiary in Singapore.

The Company's Photonics Division develops technology that permits highly sensitive detection of photons in the visible and short wave infrared portions of the spectrum. This technology when combined with advanced silicon integrated circuits makes it possible to produce highly sensitive video cameras. This development work is creating new products for both military and industrial applications.

During the fourth quarter of 1999, the Company adopted a plan to discontinue its electron beam processing equipment product line and to close the facility in Hayward, California where that equipment was built.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The consolidated financial statements include the accounts of Intevac and its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated.

#### **Revenue Recognition**

Systems and components -- Revenues for disk sputtering systems, flat panel equipment and electron beam processing systems are recognized upon customer acceptance. Revenues for system component sales are 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. 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. Some of these contracts are cost sharing in nature, where Intevac is reimbursed for a portion of the total costs expended. 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 \$5,975,000 and \$7,090,000 for 2000, respectively, \$7,067,000 and \$7,071,000 for 1999, respectively and \$5,931,000 and \$5,861,000 for 1998, respectively.

## INTEVAC, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### Warranty

The Company's standard warranty is twelve months from customer acceptance. During this warranty period any necessary non-consumable parts are supplied and installed. A provision for the estimated cost of warranty is recorded upon customer acceptance for systems and upon shipment for non-system products.

#### 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. Certain of these payments to agents and distributors are included in cost of net revenues. These amounts totaled approximately \$0, \$0 and \$72,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

#### Advertising Expenses

The Company accounts for advertising costs as expense in the period in which they are incurred. Advertising expenses for 2000, 1999 and 1998 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, and included in accounts receivable were \$2,719,000 and \$930,000 at December 31, 2000 and 1999, respectively.

#### Cash, Cash Equivalents and Short-term Investments

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

Short-term investments consist principally of high-quality debt instruments with maturities generally between one and twelve months and are carried at fair value. These investments are typically short-term in nature and therefore bear minimal risk.

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, 2000 and 1999, all debt securities were classified as available-for-sale under Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities." Securities classified as available-for-sale are reported at fair market value with the related unrealized gains and losses included in retained earnings. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income and expenses. The cost of securities sold is based on the specific identification method.

Cash and cash equivalents represent cash accounts and money market funds. Short-term investments of \$33,787,000 at December 31, 2000 consist primarily of investments in commercial paper and market auction rate bonds. Short-term investments of \$37,600,000 at December 31, 1999 consist primarily of investments in tax-exempt market auction rate preferred municipal bonds. Fair values are based on quoted market prices. The amount of unrealized gain or loss was not significant for the years ended December 31, 2000, 1999 and 1998. Gross realized gains and losses for the years ended December 31, 2000, 1999 and 1998 were not significant.

# INTEVAC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Long-lived Assets

In accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-lived Assets and Long-lived Assets to be Disposed Of," the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances, both internal and external, that may suggest impairment. Intevac will determine if any impairment exists based on undiscounted expected future cash flows from the impaired assets. The cash flow estimates that will be used will contain management's best estimates, using assumptions and projections appropriate and customary at the time. Any adjustment to the carrying value of the long-lived assets would be based on the estimated fair value of the assets. In 2000, the Company determined that the intangible assets related to the purchase of Cathode Technology Corporation and Lotus Technologies, Inc. had become impaired. At December 31, 2000 the remaining goodwill related to those purchases, amounting to \$1,056,000, was written off.

### Foreign Exchange Contracts

The Company may enter into foreign currency forward exchange contracts to hedge certain of its foreign currency transaction, translation and re-measurement exposures. The Company's accounting policies for some of these instruments are based on the Company's designation of such instruments as hedging transactions. Instruments not designated as a hedge transaction will be "marked to market" at the end of each accounting period. The criteria the Company uses for designating an instrument as a hedge include effectiveness in exposure reduction and one-to-one matching of the derivative financial instrument to the underlying transaction being hedged. Gains and losses on foreign currency forward exchange contracts that are designated and effective as hedges of existing transactions are recognized in income in the same period as losses and gains on the underlying transactions are recognized and generally offset.

During fiscal 2000, 1999 and 1998, the Company entered into yen denominated foreign currency forward exchange contracts to hedge anticipated yen denominated sales. The Company has not designated these foreign currency forward contracts as hedge transactions; therefore, the contracts have been "marked to market."

As of December 31, 2000, the Company had no foreign currency forward exchange contracts outstanding. In fiscal 2000, the Company realized gains of \$111,000 related to foreign currency forward exchange contracts.

While the notional amounts of foreign exchange contracts are often used to express the volume of these transactions, the potential accounting loss on these transactions if all counterparties failed to perform is limited to the amounts, if any, by which the counterparties' obligations exceed the Company's obligation to the counterparties.

### Inventories

Inventories for systems and components 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,	
	2000	1999
	( IN THOUSANDS )	
Raw materials.....	\$ 4,591	\$ 2,307
Work-in-progress.....	8,209	13,658
Finished goods.....	3,033	--
	-----	-----
	\$15,833	\$15,965
	=====	=====

# INTEVAC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Property, Plant and Equipment

Equipment and leasehold improvements are carried at cost less allowances for accumulated depreciation and amortization. Gains and losses on dispositions are reflected in the statements of income.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are generally three to seven years for machinery and equipment. 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.

### Intangible Assets

The Company amortizes intangible assets on a straight-line basis over the estimated useful lives, which range from two to seven years.

### Comprehensive Income

As of January 1, 1998, the Company adopted Statement No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of SFAS 130 had no impact on the Company's net income or shareholders' equity. SFAS 130 requires unrealized gains or losses on the Company's available-for-sale securities and the foreign currency translation adjustments, which prior to the adoption were reported separately in shareholders' equity, to be included in other comprehensive income.

As of December 31, 1998, the \$122,000 balance of accumulated other comprehensive income was comprised entirely of accumulated foreign currency translation adjustments. No income tax effect has been recorded related to the comprehensive income. There was no accumulated other comprehensive income as of December 31, 2000 or 1999.

### 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 ("FASB") released 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 is continuing to account for its employee stock plans in accordance with the provisions of APB 25. Under APB 25, because the exercise prices of the Company's stock options granted to employees equal the market prices of the underlying stock on the date of grant, no compensation expense is recognized.

**INTEVAC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Net income (loss) per share

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

	2000	1999	1998
	-----	-----	-----
	( IN THOUSANDS )		
<b>Numerator:</b>			
Income (loss) from continuing operations.....	\$(12,324)	\$(13,614)	\$ (581)
Gain from discontinued operations & extraordinary item, net of applicable income taxes.....	--	3,844	1,005
	-----	-----	-----
Net income (loss).....	\$(12,324)	\$ (9,770)	\$ 424
	=====	=====	=====
Numerator for basic earnings per share -- income (loss) available to common stockholders.....	(12,324)	(9,770)	424
Effect of dilutive securities:			
6 1/2% convertible notes(1).....	--	--	--
	-----	-----	-----
Numerator for diluted earnings per share -- income (loss) available to common stockholders after assumed conversions.....	\$(12,324)	\$ (9,770)	\$ 424
	=====	=====	=====
<b>Denominator:</b>			
Denominator for basic earnings per share -- weighted-average shares.....	11,803	11,777	12,052
Effect of dilutive securities:			
Employee stock options(2).....	--	--	302
6 1/2% convertible notes(1).....	--	--	--
	-----	-----	-----
Dilutive potential common shares.....	--	--	302
	-----	-----	-----
Denominator for diluted earnings per share -- adjusted weighted-average shares and assumed conversions.....	11,803	11,777	12,354
	=====	=====	=====

(1) Diluted EPS for the twelve-month periods ended December 31, 2000, December 31, 1999 and December 31, 1998 excludes "as converted" treatment of the Convertible Notes as their inclusion would be anti-dilutive. The number of "as converted" shares excluded from the twelve-month periods ended December 31, 2000, 1999 and 1998 was 1,999,758, 2,345,273 and 2,787,879, respectively.

(2) Diluted EPS for the twelve-month period ended either December 31, 2000 or December 31, 1999 excludes the effect of employee stock options as their inclusion would be anti-dilutive. The number of employee stock options excluded from the twelve-month periods ended December 31, 2000 and 1999 was 156,504 and 169,564, respectively.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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, accounts receivable and foreign exchange forward contracts. The Company generally invests its excess cash in money market funds, in market auction rate preferred municipal bonds and in commercial paper, which have contracted maturities generally within one year. By policy, the Company's investments in commercial paper, certificates of deposit, Eurodollar time deposits, or banker's acceptances are rated A1/P1 or better. Investments in tax exempt or tax advantaged instruments, such as variable rate municipal bonds are rated A or better. To date, the Company has not incurred losses related to these investments.

In January 2001, securities representing \$6 million of the Company's portfolio of short-term investments were either downgraded or put on credit watch by Standard and Poors ("S&P"). \$2 million of the \$6 million is invested in commercial paper issued by Pacific Gas & Electric, whose financial condition has been negatively impacted by the California energy crisis. The other \$4 million is invested in securities guaranteed by ACA Financial Guaranty Corporation ("ACA"). ACA's credit rating was downgraded when it failed to raise additional equity capital. ACA recently announced that a group of investors has agreed to provide ACA with new equity capital. S&P announced that upon funding of this commitment, S&P will remove ACA from CreditWatch with negative implications and affirm the single "A" financial strength rating of ACA. The Company is closely monitoring the situation and will determine during the first quarter of 2001 if the establishment of any reserves is required related to these securities.

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. The Company's largest customers tend to change from period to period as a function of each customer's plans to renovate, or add to existing production capacity.

**Products**

Disk sputtering equipment contributed a significant portion of the Company's revenues in 2000, 1999 and 1998. The Company expects that its ability to maintain or expand its current levels of revenues and to return to profitability in the future will depend upon its success in enhancing its existing systems and developing and manufacturing competitive disk sputtering equipment and its success in developing other products such as flat panel display equipment and photonics devices.

**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 capital equipment is 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 business cycle and the individual industry cyclicalities may cause prospective customers to postpone decisions regarding 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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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.

**Inventories**

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 in the equipment business from competitors, most of which have 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.

**4. DISCONTINUED OPERATIONS**

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 Company established a reserve of \$2,622,000 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. Remediation efforts were completed in 1997. Warranty on all products shipped by the business expired in November 1997. In the first quarter of 1998, the remaining reserve of \$794,000 associated with closing the business was reversed. In the second quarter of 1998, Litton reimbursed the Company for \$706,000 in excess warranty reserves transferred at the time of the sale. Both of these amounts are reflected as income from discontinued operations, net of applicable income taxes.

**5. EQUITY INVESTMENTS**

**601 California Avenue LLC**

In 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 at that time. Under the Operating Agreement, the Company transferred its leasehold interest in the site of the Company's discontinued night vision business (the "Site") in exchange for a preferred share in the LLC with a face value of \$3,900,000. The Company is accounting for the investment under the cost method and has

# INTEVAC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

recorded its investment in the LLC at \$2,431,000, which represents the Company's historical carrying value of the leasehold interest in the Site. The preferred share in the LLC pays a 10% annual cumulative preferred dividend.

During 1996, the LLC formed a joint venture with Stanford University (the "Stanford JV") to develop the property. The project was completed and leased in August 1998. The Company received dividends of \$390,000, \$1,077,000 and \$650,000 from the LLC in 2000, 1999 and 1998, respectively. The dividends received during 1998 and 1999 consisted of the annual \$390,000 dividend plus the cumulative dividends earned in prior years. As of December 31, 2000 all outstanding cumulative dividends on the preferred share had been paid. These dividends are included in other income and expense.

### IMAT Inc.

On June 27, 1997, the Company entered into an agreement with Matsubo to form a joint venture responsible for the sales and service of Intevac's flat panel display equipment in Japan and other Asian countries. The Company invested \$436,000 for 49% of the voting stock of the joint venture. The joint venture is being accounted for under the equity method. Gains and losses related to the Company's share of the joint venture are reflected in other income and expense, net on the consolidated statements of income. The Company's equity in the net income or (loss) of IMAT, Inc. was (\$125,000), \$15,000 and (\$217,000) in 2000, 1999 and 1998, respectively. Revenues have been recognized for 2 system shipments to IMAT, which were accepted by the customer in 1999. In February of 1999, the Company entered into an agreement to guarantee up to 14,700,000 Yen of IMAT's debt. During the third quarter of 2000, the Company and its joint venture partner, Matsubo, transferred IMAT's activities and employees to Matsubo and terminated the operations of IMAT.

### 6. LINE OF CREDIT

As of December 31, 2000, the Company had secured its \$1,904,000 note related to the purchase of Cathode Technology Corporation ("Cathode") with a stand-by letter of credit through its bank. No additional lines of credit existed at December 31, 2000.

### 7. COMMITMENTS

The Company leases certain facilities under non-cancelable operating leases that expire at various times up to 2007. The facility leases require the Company to pay for all normal maintenance costs. The lease for the primary facility in Santa Clara includes an option to extend the lease for an additional five-year period.

Future minimum rental payments under these leases at December 31, 2000 are as follows (in thousands):

2001.....	\$ 1,861
2002.....	2,614
2003.....	2,953
2004.....	3,070
2005.....	3,192
	-----
Total.....	\$13,690
	=====

Gross rental expense was approximately \$1,596,000, \$2,652,000 and \$2,977,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Offsetting rental expense for the periods ending December 31, 2000, 1999 and 1998 was sublease income of \$62,000, \$238,000 and \$238,000, respectively.

## INTEVAC, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 8. 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 \$123,000, \$170,000 and \$204,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Administrative expenses relating to the plan are insignificant.

#### 9. NOTES PAYABLE

In 1996, the Company issued notes related to the purchase of Cathode. The notes bear interest at 5.58% compounded monthly and payable quarterly. Principal payments on the note are made quarterly based on unit sales of the Cathode sputter sources. The remaining balance on the notes was paid in full in January 2001.

#### 10. CONVERTIBLE NOTES

During the first quarter of 1997, the Company completed an offering of \$57.5 million of its 6 1/2% Convertible Subordinated Notes (the "Convertible Notes"), which mature on March 1, 2004. Interest is payable to the note holders on each March 1st and September 1st. The notes are convertible into shares of the Company's common stock at \$20.625 per share. Expenses associated with the offering of approximately \$2.3 million have been deferred. Such expenses are being amortized to interest expense over the term of the notes.

During 1999, the Company repurchased \$16,255,000, face value, of its Convertible Notes. The repurchase resulted in a gain of \$3,844,000 (net of income taxes).

#### 11. SEGMENT REPORTING

##### Segment Description

Intevac, Inc. has two reportable operating segments: equipment and photonics. The Company's Equipment Division sells complex capital equipment used in the manufacturing of thin-film disks, flat panel displays, shrink-wrap films and for in-line sterilization. The Company's Photonics Division is developing products utilizing electron sources that permit highly sensitive detection in the short-wave infrared spectrum.

Included in corporate activities are general corporate expenses, elimination of inter-segment revenues, the equity in net loss of equity investee (see Note 5) and amortization expenses related to certain intangible assets. Assets of corporate activities include unallocated cash and short-term investments, deferred income taxes and certain intangibles and other assets.

##### Segment Profit or Loss and Segment Assets

The Company evaluates performance and allocates resources based on profit or loss from operations before interest, other income and expense and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

**INTEVAC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Business Segment Net Revenues**

	2000	1999	1998
	-----	-----	-----
	( IN THOUSANDS )		
Equipment			
Trade.....	\$28,797	\$36,008	\$90,257
Inter-segment.....	--	--	354
	-----	-----	-----
	28,797	36,008	90,611
Photonics			
Trade.....	7,252	6,954	5,718
Corporate activities.....	--	--	(354)
	-----	-----	-----
Total.....	\$36,049	\$42,962	\$95,975
	=====	=====	=====

**Business Segment Profit & Loss**

	2000	1999	1998
	-----	-----	-----
	( IN THOUSANDS )		
Equipment(1).....	\$ (8,048)	\$ (16,667)	\$ 2,257
Photonics.....	(2,164)	(935)	(125)
Corporate activities(2).....	(2,151)	(4,277)	(2,584)
	-----	-----	-----
Operating income (loss).....	(12,363)	(21,879)	(452)
Interest expense.....	(3,033)	(3,711)	(4,187)
Interest income.....	2,341	2,100	2,832
Other income and expense, net.....	731	1,532	344
	-----	-----	-----
Income (loss) from continuing operations before income taxes.....	\$ (12,324)	\$ (21,958)	\$ (1,463)
	=====	=====	=====

(1) Includes restructuring and other charge of \$1,639 and \$1,088 in 1999 and 1998, respectively.

(2) Includes restructuring and other charge of \$2,128 in 1999.

**Business Segment Assets**

	2000	1999	1998
	-----	-----	-----
	( IN THOUSANDS )		
Equipment.....	\$32,207	\$29,871	\$ 41,825
Photonics.....	4,404	4,483	5,032
Corporate activities.....	50,059	60,028	76,119
	-----	-----	-----
Total assets.....	\$86,670	\$94,382	\$122,976
	=====	=====	=====

**INTEVAC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Business Segment Property, Plant & Equipment**

	ADDITIONS -----	2000 -----	1999 -----	1998 -----
			(IN THOUSANDS)	
Equipment (1) (2).....		\$2,237	\$4,230	\$1,734
Photonics.....		656	794	1,015
Corporate activities.....		401	278	149
Total additions.....		\$3,294	\$5,302	\$2,898
		=====	=====	=====

(1) Includes inventory transferred to fixed assets of \$304 and \$1,942 in 2000 and 1999, respectively.

	DEPRECIATION -----	2000 -----	1999 -----	1998 -----
			(IN THOUSANDS)	
Equipment (1).....		\$2,387	\$2,808	\$3,364
Photonics.....		716	512	328
Corporate activities.....		618	485	308
Total depreciation.....		\$3,721	\$3,805	\$4,000
		=====	=====	=====

(1) Excludes amortization related to assets leased to a third party of \$1,244 in 1998.

**Geographic Area Net Trade Revenues**

	2000 -----	1999 -----	1998 -----
		(IN THOUSANDS)	
United States.....	\$26,466	\$17,254	\$44,983
Far East.....	9,414	25,372	49,050
Europe.....	49	234	391
Rest of World.....	120	102	1,551
Total revenues.....	\$36,049	\$42,962	\$95,975
	=====	=====	=====

**Major Customers**

In 2000, MMC Technology, Seagate, Westt and Matsubo, the Company's Japanese distributor, each accounted for more than 10% of the Company's consolidated revenues and in aggregate accounted for 56% of net revenues. In 1999 Matsubo, Seagate and Lockheed Martin each accounted for more than 10% of the Company's consolidated revenues and in aggregate accounted for 66% of net revenues. In 1998 Matsubo, HMT Technology and MMC Technology each accounted for more than 10% of the Company's consolidated revenues and in aggregate accounted for 71% of net revenues.

**12. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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. 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. The Company may repurchase shares that are not vested. Zero shares, one share and 7,169 shares were subject to repurchase at December 31, 2000, 1999 and 1998, respectively.

In 1995, the Board of Directors approved adoption of (i) the 1995 Stock Option/Stock Issuance Plan (the "1995 Plan") under which employees, non-employee 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. The 1995 Plan, as amended in 2000, serves as the successor equity incentive program to the Company's 1991 Plan. Upon adoption of the 1995 Plan, all shares available for issuance under the 1991 Plan were transferred to the 1995 Plan. As of December 31, 2000, 2,120,400 shares of common stock are authorized for future issuance under the 1995 Plan. Options granted under the 1995 Plan are exercisable upon vesting and generally vest over a five-year period. Options currently expire no later than ten years from the date of grant.

Options to purchase 878,157, 692,457 and 481,551 shares were vested at December 31, 2000, 1999 and 1998, respectively.

In the third quarter of 1998, the Company approved an exchange program that offered to each employee that held stock options granted between August 19, 1996 and July 31, 1998, the opportunity to exchange their options for newly granted stock options. The new option would be for the same number of shares as originally granted, but the vesting period would start on the day the new option was granted. This offer was open for a two-week period of time. The exercise price of the new option was set at the fair market value of Intevac common stock on the date each employee notified the Company of their acceptance of the exchange offer during the period. New stock options were granted for a total of 500,700 shares of common stock. The new option prices ranged from \$6.250 to \$8.375.

Pro forma information regarding net income and earnings per share is required by SFAS 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of this Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes multiple option pricing model with the following weighted average assumptions for 2000, 1999 and 1998, respectively: risk-free interest rates of 5.17%, 6.15% and 4.66%; dividend yields of 0.0%, 0.0% and 0.0%; volatility factors of the expected market price of the Company's common stock of 0.936, 0.855 and 0.800; and a weighted-average expected life of the option of 0.25, 0.25 and 0.25 years beyond each respective vesting period.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the fair value estimate, in management's opinion,

**INTEVAC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Under the 1995 Employee Stock Purchase Plan, as amended in 1999, (the "ESPP"), the Company is authorized to issue up to 1,000,000 shares of common stock to participating employees. Under the terms of the ESPP, employees can choose to have up to 10% of their annual base earnings withheld to purchase the Company's common stock. The purchase price of the stock is 85% of the lower of the subscription date fair market value or the purchase date fair market value. Approximately 75% of eligible employees have participated in the ESPP. Under the ESPP, the Company sold 108,784, 122,325 and 150,819 shares to employees in 2000, 1999 and 1998, respectively. As of December 31, 2000, 412,870 shares remained reserved for issuance under the ESPP. The Company does not recognize compensation cost related to employee purchase rights under the Plan. To comply with the pro forma reporting requirements of FAS 123, compensation cost is estimated for the fair value of the employees' purchase rights using the Black-Scholes model with the following assumptions for those rights granted in 2000, 1999 and 1998, respectively: risk-free interest rates of 5.36%, 5.78% and 4.68%; dividend yield of 0.0%, 0.0% and 0.0%; expected volatility of 0.936, 0.855 and 0.800; and an expected life of 2.00, 1.99 years and 1.98 years (the offering period ends July 31, 2002 for the subscription period that began in August 2000). The weighted average fair value of those purchase rights granted in 2000, 1999 and 1998 were \$2.78, \$2.94 and \$5.37, respectively.

Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	2000	1999	1998
	(IN THOUSANDS,	EXCEPT PER	SHARE DATA)
Pro forma net income (loss).....	\$(13,143)	\$(11,027)	\$(1,491)
Pro forma earnings (loss) per share			
Basic.....	\$ (1.11)	\$ (0.94)	\$ (0.12)
Diluted.....	\$ (1.11)	\$ (0.94)	\$ (0.12)

A summary of the Company's stock option activity and related information for the years ended December 31 follows:

	2000		1999		1998	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding -- beginning						
of year.....	1,496,370	\$5.82	1,599,762	\$6.92	1,573,713	\$ 8.77
Granted.....	336,100	3.75	399,100	4.70	713,700	7.16
Exercised.....	(20,261)	2.86	(26,497)	1.45	(39,350)	3.22
Forfeited.....	(241,912)	5.99	(475,995)	8.82	(648,301)	11.90
Outstanding -- end of						
year.....	1,570,297	5.39	1,496,370	5.82	1,599,762	6.92
Exercisable at end of						
year.....	878,157	\$5.84	797,470	\$5.81	715,072	\$ 5.98
Weighted-average fair						
value of options						
granted during the						
year.....		\$2.20		\$2.64		\$ 3.86

**INTEVAC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**OUTSTANDING AND EXERCISABLE BY PRICE RANGE AS OF DECEMBER 31, 2000**

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AS OF DECEMBER 31, 2000	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AS OF DECEMBER 31, 2000	WEIGHTED AVERAGE EXERCISE PRICE
\$ 0.150 - \$ 3.063	142,811	3.43 yrs	\$ 1.52	134,211	\$ 1.42
\$ 3.375 - \$ 3.375	220,000	9.47 yrs	\$ 3.38	20,000	\$ 3.38
\$ 3.625 - \$ 3.813	176,300	8.98 yrs	\$ 3.80	30,460	\$ 3.81
\$ 4.190 - \$ 5.375	181,760	8.87 yrs	\$ 5.03	36,180	\$ 5.37
\$ 6.000 - \$ 6.000	359,827	4.61 yrs	\$ 6.00	359,827	\$ 6.00
\$ 6.063 - \$ 7.625	387,099	6.88 yrs	\$ 6.95	243,599	\$ 7.16
\$ 7.688 - \$10.000	79,000	7.63 yrs	\$ 8.20	32,280	\$ 8.30
\$11.625 - \$21.250	23,500	5.51 yrs	\$17.92	21,600	\$18.41
	-----			-----	
\$ 0.150 - \$21.250	1,570,297	6.89 yrs	\$ 5.39	878,157	\$ 5.84

**13. INCOME TAXES**

The provision for income taxes on income from continuing operations consists of the following (in thousands):

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
Federal:			
Current.....	\$ --	\$(8,552)	\$ 630
Deferred.....	--	843	(1,420)
	-----	-----	-----
	--	(7,709)	(790)
State:			
Current.....	2	2	124
Deferred.....	(2)	(637)	(216)
	-----	-----	-----
	--	(635)	(92)
	-----	-----	-----
Total.....	\$ --	\$(8,344)	\$ (882)
	=====	=====	=====

The tax benefits associated with exercises of nonqualified stock options and disqualifying dispositions of stock acquired through the incentive stock option and employee stock purchase plans reduce taxes currently payable for 2000, 1999 and 1998 as shown above by \$29,000, \$22,000 and \$120,000, respectively. Such benefits are credited to additional paid-in capital when realized.

**INTEVAC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets computed in accordance with SFAS 109 are as follows (in thousands):

	DECEMBER 31,	
	2000	1999
Deferred tax assets:		
Vacation accrual.....	\$ 389	\$ 309
Warranty reserve.....	310	333
Bad debt reserve.....	47	713
Inventory valuation.....	3,959	1,981
Restructuring.....	--	1,001
AMT credit carry-forward.....	520	1,641
Federal and State NOL carry-forward.....	4,903	592
Other.....	1,401	1,581
	11,529	8,151
Valuation allowance for deferred tax assets.....	(3,605)	--
	\$ 7,924	\$8,151
Deferred tax liabilities:		
Other.....	\$ 202	\$ 429
	\$ 202	\$ 429
Net deferred tax assets.....	\$ 7,722	\$7,722

A valuation allowance of \$3,605,000 has been established due to the uncertainty of realizing certain tax credit and loss carry-forwards. The Federal and State NOL carry-forwards of \$11,416,000 and \$13,696,000 expire in 2020 and 2005, respectively, if not previously utilized. The AMT credit carry-forwards do not expire.

A reconciliation of the income tax provision on income from continuing operations at the federal statutory rate of 35% to the income tax provision at the effective tax rate is as follows (in thousands):

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
Income taxes computed at the federal statutory rate.....	\$(4,314)	\$(7,685)	\$(512)
State taxes (net of federal benefit).....	(640)	(413)	(60)
Foreign Sales Corporation benefit.....	--	--	(114)
Tax exempt income.....	(14)	(467)	(788)
Goodwill amortization.....	713	366	419
Effect of tax rate changes and other permanent differences.....	650	(145)	173
Valuation allowance.....	3,605	--	--
	\$ --	\$(8,344)	\$(882)

**14. RESEARCH AND DEVELOPMENT COST SHARING AGREEMENTS**

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 for one-half of the actual costs of the project up to a ceiling of \$9,450,000. At December 31, 1999, the Company had received the entire amount under the contract. Qualifying costs of approximately \$3,108,000, \$1,467,000 and \$1,706,000 for the years ended

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2000, 1999 and 1998, respectively, were incurred on this project, resulting in offsets against research and development costs of approximately \$583,000, \$736,000 and \$1,410,000 in 2000, 1999 and 1998, respectively. As of December 31, 2000, the entire advance had been applied to qualifying costs.

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 5% for each party.

15. RESTRUCTURING AND OTHER

During the fourth quarter of 1999, the Company adopted a plan to discontinue operations at its RPC Technologies, Inc. electron beam processing equipment subsidiary and to close RPC's facility in Hayward, California. Twenty-six employees out of the Company's staff of contract and regular personnel were terminated as a result. The Company incurred a charge of \$1,639,000 in 1999 related to this plan. The significant components of this charge included \$679,000 for inventory write-downs which were charged to cost of sales, \$264,000 for fixed asset write-offs, \$200,000 for closure of the facility, \$163,000 for employee severance costs, \$161,000 for future rent due on the facility and \$152,000 for write-off of intangibles. In the first quarter of 2000, Intevac sold certain assets of the RPC Technologies, Inc. subsidiary to Quemex Technology. Proceeds from the sale included a cash payment, assumption of the Hayward facility lease and the assumption of certain other liabilities. Excluded from the sale were two previously leased systems and three completed systems remaining in inventory. The Company recognized revenue in 2000 for two of the three completed systems and the remaining system is scheduled for customer acceptance in 2001 and is expected to be included in future Intevac revenues. The Company was able to reverse the portions of the restructuring reserve established to provide for future rents due on the facility and for the closure of the facility. However, since Intevac retained ownership of the two leased systems, the Company established an equivalent reserve to provide for any residual value at the end of the leases.

During the third quarter of 1999, the Company adopted an expense reduction plan that included closing one of the buildings at its Santa Clara facility and a reduction in force of 7 employees out of the Company's staff of contract and regular personnel. The reductions took place at the Company's facilities in Santa Clara, California. The Company incurred a charge of \$2,225,000 in 1999 related to the expense reduction plan. The significant components of this charge included \$873,000 for future rent due on the building (net of expected sublease income), \$160,000 for costs associated with operating the building through May 2000 and \$1,192,000 for the write-off of leasehold improvements and other costs associated with restructuring. In the fourth quarter of 1999, \$97,000 of the restructuring reserve was reversed due to lower than expected costs on the closure of the facility. During the first quarter of 2000, the Company vacated the building and negotiated a lease termination for that space with its landlord, which released the Company from the obligation to pay any rent after April 30, 2000. As a result, the Company reversed \$615,000 of the restructuring reserve during the first quarter of 2000. During the third quarter of 2000, the Company completed all activities related to closing the building. As a result, the Company reversed the remaining \$23,000 of the restructuring reserve during the third quarter of 2000.

During the first quarter of 1999, the Company implemented a reduction in force of 17 employees out of the Company's staff of contract and regular personnel. The reductions took place at the Company's facilities in Santa Clara, California. The Company incurred a charge of \$115,000 in 1999 related to severance costs for the affected employees. As of December 31, 1999, all of the severance had been paid.

During the third quarter of 1998, the Company implemented a reduction in force of 27 employees out of the Company's staff of contract and regular personnel. The reductions took place at the Company's facilities in Santa Clara, CA; Hayward, CA; Singapore; and Taiwan. The Company incurred a charge of \$71,000 in 1998 related to severance costs for the affected employees.

**INTEVAC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

During the first quarter of 1998, the Company adopted an expense reduction plan that included a reduction in force of 90 employees out of the Company's staff of contract and regular personnel. The reductions took place at the Company's facilities in Santa Clara, CA; Los Gatos, CA; Rocklin, CA; and Taiwan. Additionally, the Company relocated its RTP Operation from Rocklin to the Company's Santa Clara headquarters and closed the Rocklin facility. The Company incurred a charge of \$1,164,000 in 1998 related to the expense reduction plan. The significant components of this charge included \$290,000 for closure of the Rocklin facility, \$462,000 for the balance of the rent due on the lease for such facility and \$392,000 for employee severance costs. Closure of the facility was completed in the second quarter of 1998. In the fourth quarter of 1998, \$147,000 of the restructuring reserve was reversed due to lower than expected costs incurred on the closure of the Rocklin facility. In the first quarter of 1999, the Company negotiated an early termination of its lease commitment in Rocklin, CA, which resulted in the Company reversing the remaining \$132,000 of the restructuring reserve.

The following table displays the activity in the building closure restructuring reserve, established in the third quarter of 1999, and in the RPC operation discontinuance restructuring reserve, established in the fourth quarter of 1999, through September 30, 2000.

	BUILDING CLOSURE RESTRUCTURING	RPC OPERATION DISCONTINUANCE RESTRUCTURING
(IN THOUSANDS)		
Original restructuring charge.....	\$2,225	\$1,639
Actual expense incurred.....	(511)	(851)
Reversal of restructuring charge.....	(97)	--
	-----	-----
Balance at December 31, 1999.....	1,617	788
Actual expense incurred.....	(815)	(365)
Valuation reserve -- leased systems.....	--	(361)
Reversal of restructuring charge.....	(615)	--
	-----	-----
Balance at April 1, 2000.....	187	62
Actual expense incurred.....	(162)	(61)
	-----	-----
Balance at July 1, 2000.....	25	1
Actual expense incurred.....	(2)	(1)
Reversal of restructuring charge.....	(23)	--
	-----	-----
Balance at December 31, 2000.....	--	--
	=====	=====

**16. OTHER ACCRUED LIABILITIES**

	DECEMBER 31,	
	2000	1999
(IN THOUSANDS)		
Accrued income taxes.....	\$3,085	\$2,778
Accrued product warranties.....	745	801
Restructuring accruals.....	--	2,405
Accrued interest expense.....	894	894
Accrued rent expense.....	269	688
Other.....	116	1,275
	-----	-----
Total other accrued liabilities.....	\$5,109	\$8,841
	=====	=====

**INTEVAC, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**17. QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS (UNAUDITED)**

	THREE MONTHS ENDED			
	APRIL 1, 2000	JULY 1, 2000	SEPTEMBER 30, 2000	DECEMBER 31, 2000
	(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)			
Net sales.....	\$ 5,892	\$9,191	\$11,036	\$ 9,930
Gross profit.....	651	1,808	604	(1,073)
Net loss.....	(2,861)	(701)	(3,409)	(5,353)
Basic earnings per share.....	\$ (0.24)	\$ (0.06)	\$ (0.29)	\$ (0.45)
Diluted earnings per share.....	(0.24)	(0.06)	(0.29)	(0.45)

	THREE MONTHS ENDED			
	MARCH 27, 1999	JUNE 26, 1999	SEPTEMBER 25, 1999	DECEMBER 31, 1999
	(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)			
Net sales.....	\$11,749	\$10,270	\$13,822	\$ 7,121
Gross profit.....	993	180	1,499	559
Net loss.....	(2,985)	(2,698)	(376)	(3,711)
Basic earnings per share.....	\$ (0.25)	\$ (0.23)	\$ (0.03)	\$ (0.32)
Diluted earnings per share.....	(0.25)	(0.23)	(0.03)	(0.32)

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

The information required by this item is included under the caption "Ratification of Independent Public Auditors" in the Company's Proxy Statement for the 2001 Annual Meeting of Shareholders and is incorporated herein by reference.

### **PART III**

## **ITEM 10. DIRECTORS AND OFFICERS OF THE REGISTRANT**

The information required by this item relating to the Company's directors and nominees and disclosure relating to compliance with Section 16 (a) of the Securities Exchange Act of 1934 is included under the captions "Election of Directors" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Company's Proxy Statement for the 2001 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by this item relating to the Company's executive officers and key employees is included under the caption "Executive Officers and Directors" under Item 4 in

Part I of this Annual Report on Form 10-K.

## **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is included under the caption "Executive Compensation and Related Information" in the Company's Proxy Statement for the 2001 Annual Meeting of Shareholders and is incorporated herein by reference.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information required by this item is included under the caption "Ownership of Securities" in the Company's Proxy Statement for the 2001 Annual Meeting of Shareholders and is incorporated herein by reference.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this item is included under the caption "Certain Transactions" in the Company's Proxy Statement for the 2001 Annual Meeting of Shareholders and is incorporated herein by reference.

### **PART IV**

## **ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K**

(a) List of Documents filed as part of this Annual Report on Form 10-K.

1. The following consolidated financial statements of Intevac, Inc. are filed in Part II, Item 8 of this Report on Form 10-K:

**Report of Grant Thornton LLP, Independent Auditors**

**Report of Ernst & Young LLP, Independent Auditors**

**Consolidated Balance Sheets -- December 31, 2000 and 1999**

Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2000, 1999 and 1998

Consolidated Statement of Shareholders' Equity for the years ended December 31, 2000, 1999 and 1998

Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998

Notes to Consolidated Financial Statements -- Years Ended December 31, 2000, 1999 and 1998

## 2. Financial Statement Schedules.

The following financial statement schedule of Intevac, Inc. is filed in Part IV, Item 14(a) of this Annual Report on Form 10-K:

### Schedule II -- Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the consolidated financial statements or notes thereto.

## 3. Exhibits

EXHIBIT NUMBER -----	DESCRIPTION -----
*3.1	Amended and Restated Articles of Incorporation of the Registrant
*3.2	Bylaws of the Registrant
***4.2	Indenture, dated as of February 15, 1997, between the Company and State Street Bank and Trust Company of California, N.A. as Trustee, including the form of the Convertible Notes
*10.1	The Registrant's 1991 Stock Option/Stock Issuance Plan
*10.2	The Registrant's 1995 Stock Option/Stock Issuance Plan, as amended
*10.3	The Registrant's Employee Stock Purchase Plan, as amended
10.5	Lease, dated February 5, 2001 regarding the space located at 3560, 3570 and 3580 Basset Street Santa Clara, California
*10.8	601 California Avenue LLC Limited Liability Operating Agreement, dated July 28, 1995
*10.9	The Registrant's 401(k) Profit Sharing Plan
*10.11	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, as amended
**10.13	Stock Purchase Agreement by and among Lotus Technologies, Inc., Lewis Lipton, Dennis Stark, Steve Romine and Intevac, Inc., dated June 6, 1996
21.1	Subsidiaries of the Registrant
23.1	Consent of Grant Thornton LLP, Independent Auditors
23.2	Consent of Ernst & Young LLP, Independent Auditors
24.1	Power of Attorney (see page 46)

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\* Previously filed as an exhibit to the Registration Statement on Form S-1  
(No. 33-97806)

\*\* Previously filed as an exhibit to the Registration Statement on Form S-1

(No. 333-05531)

\*\*\* Previously filed as an exhibit to the Registration Statement on Form S-3

(No. 333-24275)

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of the fiscal year covered by this Annual Report on Form 10-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 8, 2001.

### INTEVAC, INC.

By: /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)

### 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 Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE ----
/s/ NORMAN H. POND ----- (Norman H. Pond)	Chairman of the Board (Principal Executive Officer)	March 8, 2001
/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)	March 8, 2001
/s/ EDWARD DURBIN ----- (Edward Durbin)	Director	March 8, 2001
/s/ ROBERT D. HEMPSTEAD ----- (Robert D. Hempstead)	Director	March 8, 2001
/s/ DAVID N. LAMBETH ----- (David N. Lambeth)	Director	March 8, 2001
/s/ H. JOSEPH SMEAD ----- (H. Joseph Smead)	Director	March 8, 2001

**SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS**

**INTEVAC, INC.**

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS			BALANCE AT END OF PERIOD
		CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS -- DESCRIBE	DEDUCTIONS -- DESCRIBE(1)	
Year ended December 31, 1998:					
Deducted from asset accounts:					
Allowance for doubtful accounts.....	\$1,504,600	\$ 246,038	\$ 0	\$121,290	\$1,629,348
Year ended December 31, 1999:					
Deducted from asset accounts:					
Allowance for doubtful accounts.....	\$1,629,348	\$ 151,802	\$ 0	\$ 68,074	\$1,713,076
Year ended December 31, 2000:					
Deducted from asset accounts:					
Allowance for doubtful accounts.....	\$1,713,076	\$(1,544,172)	\$(2,892)	\$ 52,500	\$ 113,512
Valuation allowance against deferred tax assets.....	0	3,604,716	0	0	3,604,716

(1) Typically includes write-offs of amounts deemed uncollectible.

## EXHIBIT INDEX

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(No. 333-05531)

\*\*\* Previously filed as an exhibit to the Registration Statement on Form S-3

(No. 333-24275)

## EXHIBIT 10.5

### 1. BASIC PROVISIONS

1.1 PARTIES: This Lease, executed in duplicate at Cupertino, California, on February 5, 2001, by and between Mission West Properties, L.P. III, a Delaware limited partnership, and Intevac Corporation, a California Corporation, hereinafter called respectively Lessor and Lessee, without regard to number or gender.

1.2 LETTING: Lessor hereby leases to Lessee, and Lessee hires from Lessor, the Premises, for the term, at the rental and upon all the terms and conditions set forth herein.

1.3 USE: Lessee may use the Premises for the purpose of conducting therein office, research and development, light manufacturing, and warehouse activities, and any other legal activity.

1.4 PREMISES: The real property with appurtenances as shown on Exhibit A (the "Premises") situated in the City of Santa Clara, County of Santa Clara, State of California, and more particularly described as follows:

The Premises includes 119,583 square feet out of 167,063 square feet of buildings, including all improvements thereto as shown on Exhibit A.1 including the right to use up to 396 unreserved parking spaces and the link between 3550 and 3560 Bassett Street of approximately 1,600 sq. ft. The addresses for the Premises are 3560-3570-3580 Bassett Street, Santa Clara, California. Lessee's pro-rata share of the Premises is 71.6%.

1.5 TERM: The term shall be for seventy-five (75) months unless extended pursuant to Section 35 of this Lease (the "Lease Term"), commencing on the Commencement Date as defined in Section 1.11 and ending on March 31, 2007.

1.6 RENT: Base rent shall be payable in monthly installments as follows:

	Base rent	Estimated CAC*	Total
	-----	-----	-----
01/01/01 through 03/31/01	\$146,489	\$2,200*	\$148,689
04/01/01 through 03/31/02	\$152,349	\$2,200*	\$154,549
04/01/02 through 03/31/03	\$236,774	\$2,200*	\$238,974
04/01/03 through 03/31/04	\$246,245	\$2,200*	\$248,445
04/01/04 through 03/31/05	\$256,095	\$2,200*	\$258,295
04/01/05 through 03/31/06	\$266,339	\$2,200*	\$268,539
04/01/06 through 03/31/07	\$276,992	\$2,200*	\$279,192

\* CAC charges to be adjusted per Common Area Charges Section below.

Base rent and CAC as scheduled above shall be payable in advance on or before the first day of each calendar month during the Lease Term. The term "Rent," as used herein, shall be deemed to be and to mean the base monthly rent and all other sums required to be paid by Lessee pursuant to the terms of this Lease. Rent shall be paid in lawful money of the United States of America, without offset or deduction, and shall be paid to Lessor at such place or places as may be designated from time to time by Lessor. Rent for any period less than a calendar month shall be a pro rata portion of the monthly installment.

1.7 SECURITY DEPOSIT: NONE

**1.8 COMMON AREA CHARGES:** Lessee shall pay to Lessor, as additional Rent, an amount equal to Lessee's pro-rata share of the total common area charges of the Premises as defined below (the common area charges for the Premises is referred to herein as ("CAC")). Lessee shall pay to Lessor as Rent, on or before the first day of each calendar month during the Lease Term, subject to adjustment and reconciliation as provided herein below, the sum of Two Thousand and Two Hundred Dollars (\$2,200), said sum representing Lessee's estimated monthly payment of Lessee's percentage share of CAC. It is understood and agreed that Lessee's obligation under this paragraph shall be prorated to reflect the Commencement Date and the end of the Lease Term.

Lessee's estimated monthly payment of CAC payable by Lessee during the calendar year in which the Lease commences is set forth above. At or prior to the commencement of each succeeding calendar year term (or as soon as practical thereafter), Lessor shall provide Lessee with Lessee's estimated monthly payment for CAC which Lessee shall pay to Lessor as Rent. Within 120 days of the end of the calendar year and the end of the Lease Term, Lessor shall provide Lessee a statement of actual CAC incurred for the preceding year or other applicable period in the case of a termination year. If such statement shows that Lessee has paid less than its actual percentage, then Lessee shall on demand pay to Lessor the amount of such deficiency. If such statement shows that Lessee has paid more than its actual percentage, then Lessor shall, at its option, promptly refund such excess to Lessee or credit the amount thereof to the Rent next becoming due from Lessee. Lessor reserves the right to revise any estimate of CAC if the actual or projected CAC show an increase or decrease in excess of 10% from an earlier estimate for the same period. In such event, Lessor shall provide a revised estimate to Lessee, together with an explanation of the reasons therefore, and Lessee shall revise its monthly payments accordingly. Lessor's and Lessee's obligation with respect to adjustments at the end of the Lease Term or earlier expiration of this Lease shall survive the Lease Term or earlier expiration.

As used in this Lease, CAC shall include but is not limited to: (i) landscaping repair, replacement, and maintenance; (ii) all costs and expenses including but not limited to supplies, materials, equipment and tools used or required in connection with the operation and maintenance of the Premises; (iii) licenses, permits and inspection fees; (iv) all other costs incurred by Lessor in maintaining and operating the Premises; and (v) an amount equal to ten percent (10%) of items (i) through (iv) above. Lessee shall have the right to review the basis and computation analysis used to derive the CAC applicable to this Lease annually.

**1.9 LATE CHARGES:** Lessee hereby acknowledges that a late payment made by Lessee to Lessor of Rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges, which may be imposed on Lessor according to the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of base monthly rent or monthly estimate of CAC is not received by Lessor or Lessor's designee within five (5) days after such amount is due or if any other Rent or other sum payable to Lessor is not received by Lessor or Lessor's designee within ten (10) days after Lessor delivers a written notice to Lessee, Lessee shall pay to Lessor a late charge equal to five percent (5%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payments made by Lessee. Acceptance of such late charges by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor shall it prevent Lessor from exercising any of the other rights and remedies granted hereunder.

**1.10 QUIET ENJOYMENT:** Lessor covenants and agrees with Lessee that upon Lessee paying Rent and performing its covenants and conditions under this Lease, Lessee shall and may peaceably and quietly have, hold and enjoy the Premises for the Lease Term, subject, however, to the rights reserved by Lessor hereunder.

1.11 POSSESSION: Lessee is in possession of Premises. Terms and conditions of this lease shall commence on January 1, 2001. On January 1, 2001, this Lease will supercede and replace all prior agreements between Lessee and Lessor related to Lessee's use of the Premises.

## 2. LESSEE IMPROVEMENTS

2.1 ACCEPTANCE OF PREMISES AND COVENANTS TO SURRENDER: Lessee accepts the Premises in an "AS IS" condition and "AS IS" state of repair. Lessee has occupied the Premises for over five (5) years under an existing NNN lease. Lessee agrees on the last day of the Lease Term, or on the sooner termination of this Lease, to surrender the Premises to Lessor in Good Condition and Repair. "Good Condition and Repair" shall generally mean that the Premises are in the condition that one would expect the Premises to be in, if throughout the Lease Term Lessee (i) uses and maintains the Premises in a commercially reasonable manner and in an accordance with the requirements of this Lease and (ii) makes all Required Replacements. "Required Replacements" are the replacements to worn-out equipment, fixtures, and improvements that a commercially reasonable owner-user would make. All of the following shall be in Good Condition and Repair: (i) the interior walls and floors of all offices and other interior areas, (ii) all suspended ceilings and any carpeting shall be clean and in good condition, (iii) all glazing, windows, doors and door closures, plate glass, and (iv) all electrical systems including light fixtures and ballasts, plumbing, temperature control systems, and those additional items listed in Section 5 of the Lease. Lessee, on or before the end of the Lease Term or sooner termination of this Lease, shall remove all its personal property and trade fixtures from the Premises, and all such property not so removed shall be deemed to be abandoned by Lessee. Lessee shall reimburse Lessor for all disposition costs incurred by Lessor relative to Lessee's abandoned property. If the Premises are not surrendered at the end of the Lease Term or earlier termination of this Lease, Lessee shall indemnify Lessor against loss or liability resulting from any delay caused by Lessee in surrendering the Premises including, without limitation, any claims made by any succeeding Lessee founded on such delay. Notwithstanding the above, Lessor shall install, at Lessor's cost, new roof membrane on all remaining space by December 31, 2001.

3. USES PROHIBITED: Lessee shall not commit, or suffer to be committed, any waste upon the Premises, or any nuisance, or other act or thing which may disturb the quiet enjoyment of any other tenant in or around the buildings in which the subject Premises are located or allow any sale by auction upon the Premises, or allow the Premises to be used for any improper, immoral, unlawful or objectionable purpose, or place any loads upon the floor, walls, or ceiling which may endanger the structure, or use any machinery or apparatus which will in any manner vibrate or shake the Premises or the building of which it is a part, or place any harmful liquids in the drainage system of the building. No waste materials or refuse shall be dumped upon or permitted to remain upon any part of the Premises outside of the building proper. No materials, supplies, equipment, finished products or semi-finished products, raw materials or articles of any nature shall be stored upon or permitted to remain on any portion of the Premises outside of the building structure, unless approved by the local, state, federal or other applicable governing authority. Lessor consents to Lessee's use of materials which are necessary to the operation of Lessee's business, or which are incidental to the normal, day-to-day operations of any office user, such as copier fluids, cleaning materials, etc., but this does not relieve Lessee of any of its obligations not to contaminate the Premises and related real property or violate any Hazardous Materials Laws. For the purposes of this paragraph "building structure" includes fenced-in storage areas attached to the building. Lessee agrees to comply with the regulations of all local, state, federal and other applicable governing authorities with respect to storage of articles of any nature in the "building structure" and Premises.

4. ALTERATIONS AND ADDITIONS: Lessee shall not make, or suffer to be made, any alteration or addition to said Premises, or any part thereof, without the express, advance written consent of Lessor; any addition or alteration to said Premises, except movable furniture and trade fixtures, shall become at once a part of the realty and belong to Lessor at the end of the Lease Term or earlier termination of this Lease. Alterations and additions which are not deemed as trade fixtures shall include HVAC systems, lighting systems, electrical systems, partitioning, carpeting, or any other installation which has become an integral part of the Premises. Lessee agrees that it will not proceed to make such alterations or additions until all required government permits have been obtained and after having obtained consent from Lessor to do so, until five (5) days from the receipt of such consent, so that Lessor may post appropriate notices to avoid any liability to contractors or material suppliers for payment for Lessee's improvements. Lessee shall at all times permit such notices to be posted and to remain posted until the completion of work. At the end of the Lease Term or earlier termination of this Lease, Lessee shall remove and shall be required to remove its special tenant improvements, all related equipment, and any additions or alterations installed by Lessee at or during the Lease Term and Lessee shall return the Premises to the condition that existed before the installation of the tenant improvements. Notwithstanding the above, Lessor agrees to allow any reasonable alterations and improvements and will use its best efforts to notify Lessee at the time of approval if such improvements or alterations are to be removed at the end of the Lease Term or earlier termination of this Lease.

#### 5. MAINTENANCE OF PREMISES:

Lessee shall at its sole cost and expense keep, repair, and maintain the Premises in Good Condition and Repair, including, but not limited to:

1. The interior walls and floors of all offices and other interior areas, doors and door closures, all lighting systems, temperature control systems, and plumbing systems.
2. The interior and exterior window washing as needed.
3. The HVAC by a service contract with a licensed air conditioning and heating contractor which contract shall provide for a minimum of quarterly maintenance of all air conditioning and heating equipment at the Premises including HVAC repairs or replacements which are either excluded from such service contract or any existing equipment warranties.
4. The roof membrane by a service contract with a licensed reputable roofing contractor which contract shall provide for a minimum of semi-annual maintenance, cleaning of storm gutters, drains, removing of debris, and trimming overhanging trees, repair of the roof and application of a finish coat every five years to the building at the Premises.
5. Exterior pest control.
6. Fire monitoring services.
7. Elevator repair, inspection, and replacements.

Lessor will at Lessee's sole cost and expense keep, repair, and maintain the exterior of the building, any appurtenances and every part thereof, including but not limited to, glazing, sidewalks, parking areas, electrical systems, and painting of exterior walls. The parking lot to receive a finish coat every five to seven years.

(c) Lessee hereby waives any and all rights to make repairs at the expense of Lessor as provided in Section 1942 of the Civil Code of the State of California, and all rights provided for by Section 1941 of said Civil Code.

(d) Lessor shall be responsible for the repair of any structural defects in the Premises including the roof structure (not membrane), exterior walls and foundation during the Lease Term.

(e) Lessee shall be responsible for and pay for all Required Replacements of any items in this Section 5 on Lease Termination.

## 6. INSURANCE:

A) HAZARD INSURANCE: Lessee shall not use, or permit said Premises, or any part thereof, to be used, for any purpose other than that for which the Premises are hereby leased; and no use shall be made or permitted to be made of the Premises, nor acts done, which may cause a cancellation of any insurance policy covering the Premises, or any part thereof, nor shall Lessee sell or permit to be kept, used or sold, in or about said Premises, any article which may be prohibited by a fire and extended coverage insurance policy. Lessee shall comply with any and all requirements, pertaining to said Premises, of any insurance organization or company, necessary for the maintenance of reasonable fire and extended coverage insurance, covering the Premises. Lessor shall, at Lessee's sole cost and expense, purchase and keep in force fire and extended coverage insurance, covering loss or damage to the Premises in an amount equal to the full replacement cost of the Premises, as determined by Lessor, with proceeds payable to Lessor. In the event of a loss per the insurance provisions of this paragraph, Lessee shall be responsible for deductibles up to a maximum of \$5,000 per occurrence. Lessee acknowledges that the insurance referenced in this paragraph does not include coverage for Lessee's personal property.

B) LOSS OF RENTS INSURANCE: Lessor shall, at Lessee's sole cost and expense, purchase and maintain in full force and effect, a policy of rental loss insurance, in an amount equal to the amount of Rent payable by Lessee commencing within sixty (60) days of the date of the loss or on the date of loss if reasonably available for the next ensuing one (1) year, as reasonably determined by Lessor with proceeds payable to Lessor ("Loss of Rents Insurance").

C) LIABILITY AND PROPERTY DAMAGE INSURANCE: Lessee, as a material part of the consideration to be rendered to Lessor, hereby waives all claims against Lessor and Lessor's Agents for damages to goods, wares and merchandise, and all other personal property in, upon, or about the Premises, and for injuries to persons in, upon, or about the Premises, from any cause arising at any time, and Lessee will hold Lessor and Lessor's Agents exempt and harmless from any damage or injury to any person, or to the goods, wares, and merchandise and all other personal property of any person, arising from the use or occupancy of the Premises by Lessee, or from the failure of Lessee to keep the Premises in Good Condition and Repair, as herein provided. Lessee shall, at Lessee's sole cost and expense, purchase and keep in force a standard policy of commercial general liability insurance and property damage policy covering the Premises and all related areas insuring the Lessee having a combined single limit for both bodily injury, death and property damage in an amount not less than five million dollars (\$5,000,000.00) and Lessee's insurance shall be primary. The limits of said insurance shall not, however, limit the liability of Lessee hereunder. Lessee shall, at its sole cost and expense, comply with all of the insurance requirements of all local, municipal, state and federal authorities now in force, or which may hereafter be in force, pertaining to Lessee's use and occupancy of the said Premises.

D) PERSONAL PROPERTY INSURANCE: Lessee shall obtain, at Lessee's sole cost and expense, a policy of fire and extended coverage insurance including coverage for direct physical loss special form, and a sprinkler leakage endorsement insuring the personal property of Lessee. The proceeds from any personal property damage policy shall be payable to Lessee.

All insurance policies required in 6 C) and 6 D) above shall: (i) provide for a certificate of insurance evidencing the insurance required herein, being deposited with Lessor ten (10) days prior to the Commencement Date, and upon each renewal, such certificates shall be provided prior to the expiration date of such coverage, (ii) be in a form reasonably satisfactory to Lessor and shall provide the coverage required by Lessee in this Lease, (iii) be carried with companies with a Best Rating of A minimum, (iv) specifically provide that such policies shall not be subject to cancellation or reduction of coverage except after 30 days prior written notice to Lessor, (v) name Lessor, and any other parties requested by Lessor that have an insurable interest in the Premises as additional insureds by endorsement to policy, and (vi) shall be primary.

Lessee agrees to pay to Lessor, as additional Rent, on demand, the full cost of the insurance policies referenced in 6 A) and 6 B) above as evidenced by insurance billings from Lessor. If Lessee does not occupy the entire Premises, the insurance premiums shall be allocated to the portion of the Premises occupied by Lessee on a pro-rata square footage or other equitable basis, as determined by Lessor. It is agreed that Lessee's obligation under this paragraph shall be prorated to reflect the Commencement Date and the end of the Lease Term.

Lessor and Lessee hereby waive any rights each may have against the other related to any loss or damage caused to Lessor or Lessee as the case may be, or to the Premises or its contents, and which may arise from any risk covered by fire and extended coverage insurance and those risks required to be covered under Lessee's personal property insurance. The parties shall provide that their respective insurance policies insuring the property or the personal property include a waiver of any right of subrogation which said insurance company may have against Lessor or Lessee, as the case may be.

7. ABANDONMENT: Lessee shall not vacate or abandon the Premises at any time during the Lease Term; and if Lessee shall abandon, vacate or surrender said Premises, or be dispossessed by process of law, or otherwise, any personal property belonging to Lessee and left on the Premises shall be deemed to be abandoned, at the option of Lessor. Notwithstanding the above, the Premises shall not be considered vacated or abandoned if Lessee maintains the Premises in Good Condition and Repair, provides security and is not in default.

8. FREE FROM LIENS: Lessee shall keep the subject Premises and the property in which the subject Premises are situated, free from any and all liens including but not limited to liens arising out of any work performed, materials furnished, or obligations incurred by Lessee. However, the Lessor shall allow Lessee to contest a lien claim, so long as the claim is discharged prior to any foreclosure proceeding being initiated against the property and provided Lessee provides Lessor a bond if the lien exceeds \$5,000.

9. COMPLIANCE WITH GOVERNMENTAL REGULATIONS: Lessee shall, at its sole cost and expense, comply with all of the requirements of all local, municipal, state and federal authorities now in force, or which may hereafter be in force, pertaining to the Premises, and shall faithfully observe in the use and occupancy of the Premises all local and municipal ordinances and state and federal statutes now in force or which may hereafter be in force.

10. INTENTIONALLY OMITTED.

11. ADVERTISEMENTS AND SIGNS: Lessee shall not place or permit to be placed, in, upon or about the Premises any unusual or extraordinary signs, or any signs not approved by the city, local, state, federal or other applicable governing authority. Lessee shall not place, or permit to be placed upon the Premises, any signs, advertisements or notices without the written consent of the Lessor, and such consent shall not be unreasonably withheld. A sign so placed on the Premises shall be so placed upon the understanding and agreement that Lessee will remove same at the end of the

Lease Term or earlier termination of this Lease and repair any damage or injury to the Premises caused thereby, and if not so removed by Lessee, then Lessor may have the same removed at Lessee's expense.

12. UTILITIES: Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities supplied to the Premises. Any charges for sewer usage, PG&E and telephone site service or related fees shall be the obligation of Lessee and paid for by Lessee. If any such services are not separately metered to Lessee, Lessee shall pay a reasonable proportion of all charges which are jointly metered, the determination to be made by Lessor acting reasonably and on any equitable basis. Lessor and Lessee agree that Lessor shall not be liable to Lessee for any disruption in any of the utility services to the Premises.

13. ATTORNEY'S FEES: In case suit should be brought for the possession of the Premises, for the recovery of any sum due hereunder, because of the breach of any other covenant herein, or to enforce, protect, or establish any term, conditions, or covenant of this Lease or the right of either party hereunder, the losing party shall pay to the Prevailing Party reasonable attorney's fees which shall be deemed to have accrued on the commencement of such action and shall be enforceable whether or not such action is prosecuted to judgment. The term "Prevailing Party" shall mean the party that received substantially the relief requested, whether by settlement, dismissal, summary judgment, judgment, or otherwise.

#### 14. DEFAULT

14.1 LESSEE DEFAULT: The occurrence of any of the following shall constitute a default and breach of this Lease by Lessee: a) Any failure by Lessee to pay Rent or to make any other payment required to be made by Lessee hereunder when due if not cured within ten (10) days after written notice thereof by Lessor to Lessee; b) The abandonment or vacation of the Premises by Lessee except as provided in Section 7; c) A failure by Lessee to observe and perform any other provision of this Lease to be observed or performed by Lessee, where such failure continues for thirty days after written notice thereof by Lessor to Lessee; provided, however, that if the nature of such default is such that the same cannot be reasonably cured within such thirty (30) day period, Lessee shall not be deemed to be in default if Lessee shall, within such period, commence such cure and thereafter diligently prosecute the same to completion; d) The making by Lessee of any general assignment for the benefit of creditors; the filing by or against Lessee of a petition to have Lessee adjudged a bankrupt or of a petition for reorganization or arrangement under any law relating to bankruptcy; e) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets or Lessee's interest in this Lease, or the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease.

14.2 SURRENDER OF LEASE: In the event of any such default by Lessee, then in addition to any other remedies available to Lessor at law or in equity, Lessor shall have the immediate option to terminate this Lease before the end of the Lease Term and all rights of Lessee hereunder, by giving written notice of such intention to terminate. In the event that Lessor terminates this Lease due to a default of Lessee, then Lessor may recover from Lessee: a) the worth at the time of award of any unpaid Rent which had been earned at the time of such termination; plus b) the worth at the time of award of unpaid Rent which would have been earned after termination until the time of award exceeding the amount of such rental loss that the Lessee proves could have been reasonably avoided; plus c) the worth at the time of award of the amount by which the unpaid Rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; plus d) any other amount necessary to compensate Lessor for all the detriment proximately caused by Lessee's failure to perform his obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and e) at Lessor's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable California law. As used in (a) and (b) above, the "worth at the time of award" is computed by allowing

interest at the rate of Wells Fargo's prime rate plus two percent (2%) per annum. As used in (c) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

**14.3 RIGHT OF ENTRY AND REMOVAL:** In the event of any such default by Lessee, Lessor shall also have the right, with or without terminating this Lease, to re-enter the Premises and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Lessee.

**14.4 ABANDONMENT:** In the event of the vacation or abandonment, except as provided in Section 7, of the Premises by Lessee or in the event that Lessor shall elect to re-enter as provided in paragraph 14.3 above or shall take possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, and Lessor does not elect to terminate this Lease as provided in Section 14.2 above, then Lessor may from time to time, without terminating this Lease, either recover all Rent as it becomes due or relet the Premises or any part thereof for such term or terms and at such rental rates and upon such other terms and conditions as Lessor, in its sole discretion, may deem advisable with the right to make alterations and repairs to the Premises. In the event that Lessor elects to relet the Premises, then Rent received by Lessor from such reletting shall be applied; first, to the payment of any indebtedness other than Rent due hereunder from Lessee to Lessor; second, to the payment of any cost of such reletting; third, to the payment of the cost of any alterations and repairs to the Premises; fourth, to the payment of Rent due and unpaid hereunder; and the residue, if any, shall be held by Lessor and applied to the payment of future Rent as the same may become due and payable hereunder. Should that portion of such Rent received from such reletting during any month, which is applied by the payment of Rent hereunder according to the application procedure outlined above, be less than the Rent payable during that month by Lessee hereunder, then Lessee shall pay such deficiency to Lessor immediately upon demand therefore by Lessor. Such deficiency shall be calculated and paid monthly. Lessee shall also pay to Lessor, as soon as ascertained, any costs and expenses incurred by Lessor in such reletting or in making such alterations and repairs not covered by the rentals received from such reletting.

**14.5 NO IMPLIED TERMINATION:** No re-entry or taking possession of the Premises by Lessor pursuant to Section 14.3 OR Section 14.4 of this Lease shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Lessee or unless the termination thereof is decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Lessor because of any default by Lessee, Lessor may at any time after such reletting elect to terminate this Lease for any such default.

**15. SURRENDER OF LEASE:** The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subleases or sub tenancies, or may, at the option of Lessor, operate as an assignment to him of any or all such subleases or sub tenancies.

**16. TAXES:** Lessee shall pay and discharge punctually and when the same shall become due and payable without penalty to Lessor, all real estate taxes, personal property taxes, taxes based on vehicles utilizing parking areas in the Premises, taxes computed or based on rental income (other than federal, state and municipal net income taxes), Environmental Surcharges, privilege taxes, excise taxes, business and occupation taxes, school fees or surcharges, gross receipts taxes, sales and/or use taxes, employee taxes, occupational license taxes, water and sewer taxes, assessments (including, but not limited to, assessments for public improvements or benefit), assessments for local improvement and maintenance districts, and all other governmental impositions and charges of every kind and nature whatsoever, regardless of whether now customary or within the contemplation of the parties hereto and regardless of whether resulting from increased rate and/or valuation, or whether extraordinary or ordinary, general or special, unforeseen or foreseen, or similar or dissimilar to any of the foregoing (all of the foregoing being hereinafter

collectively called "Tax" or "Taxes") which, at any time during the Lease Term, shall be applicable or against the Premises, or shall become due and payable and a lien or charge upon the Premises under or by virtue of any present or future laws, statutes, ordinances, regulations, or other requirements of any governmental authority whatsoever. The term "Environmental Surcharge" shall include any and all expenses, taxes, charges or penalties imposed by the Federal Department of Energy, Federal Environmental Protection Agency, the Federal Clean Air Act, or any regulations promulgated thereunder, or any other local, state or federal governmental agency or entity now or hereafter vested with the power to impose taxes, assessments or other types of surcharges as a means of controlling or abating environmental pollution or the use of energy in regard to the use, operation or occupancy of the Premises. The term "Tax" shall include, without limitation, all taxes, assessments, levies, fees, impositions or charges levied, imposed, assessed, measured, or based in any manner whatsoever (i) in whole or in part on the Rent payable by Lessee under this Lease, (ii) upon or with respect to the use, possession, occupancy, leasing, operation or management of the Premises, (iii) upon this transaction or any document to which Lessee is a party creating or transferring an interest or an estate in the Premises, (iv) upon Lessee's business operations conducted at the Premises, (v) upon, measured by or reasonably attributable to the cost or value of Lessee's equipment, furniture, fixtures and other personal property located on the Premises or the cost or value of any leasehold improvements made in or to the Premises by or for Lessee, regardless of whether title to such improvements shall be in Lessor or Lessee, or (vi) in lieu of or equivalent to any Tax set forth in this Section

16. In the event any such Taxes are payable by Lessor and it shall not be lawful for Lessee to reimburse Lessor for such Taxes, then the Rent payable thereunder shall be increased to net Lessor the same net rent after imposition of any such Tax upon Lessor as would have been payable to Lessor prior to the imposition of any such Tax. It is the intention of the parties that Lessor shall be free from all such Taxes and all other governmental impositions and charges of every kind and nature whatsoever. However, nothing contained in this Section 16 shall require Lessee to pay any Federal or State income, franchise, estate, inheritance, succession, transfer or excess profits tax imposed upon Lessor. If any general or special assessment is levied and assessed against the Premises, Lessor agrees to use its best reasonable efforts to cause the assessment to become a lien on the Premises securing repayment of a bond sold to finance the improvements to which the assessment relates which is payable in installments of principal and interest over the maximum term allowed by law. It is understood and agreed that Lessee's obligation under this paragraph will be prorated to reflect the Commencement Date and the end of the Lease Term. It is further understood that if Taxes cover the Premises and Lessee does not occupy the entire Premises, the Taxes will be allocated to the portion of the Premises occupied by Lessee based on a pro-rata square footage or other equitable basis, as determined by Lessor.

Subject to any limitations or restrictions imposed by any deeds of trust or mortgages now or hereafter covering or affecting the Premises, Lessee shall have the right to contest or review the amount or validity of any Tax by appropriate legal proceedings but which is not to be deemed or construed in any way as relieving, modifying or extending Lessee's covenant to pay such Tax at the time and in the manner as provided in this Section 16. However, as a condition of Lessee's right to contest, if such contested Tax is not paid before such contest and if the legal proceedings shall not operate to prevent or stay the collection of the Tax so contested, Lessee shall, before instituting any such proceeding, protect the Premises and the interest of Lessor and of the beneficiary of a deed of trust or the mortgagee of a mortgage affecting the Premises against any lien upon the Premises by a surety bond, issued by an insurance company acceptable to Lessor and in an amount equal to one and one-half (1 1/2) times the amount contested or, at Lessor's option, the amount of the contested Tax and the interest and penalties in connection therewith. Any contest as to the validity or amount of any Tax, whether before or after payment, shall be made by Lessee in Lessee's own name, or if required by law, in the name of Lessor or both Lessor and Lessee. Lessee shall defend, indemnify and hold harmless Lessor from and against any and all costs or expenses, including attorneys' fees, in connection with any such proceedings brought by Lessee, whether in its own name or not. Lessee shall be entitled to retain any refund of any such contested Tax and penalties or interest thereon which have been paid by Lessee. Nothing contained herein shall be construed as affecting or limiting Lessor's right to contest any Tax at Lessor's expense.

17. NOTICES: Unless otherwise provided for in this Lease, any and all written notices or other communication (the "Communication") to be given in connection with this Lease shall be given in writing and shall be given by personal delivery, facsimile transmission or by mailing by registered or certified mail with postage thereon or recognized overnight courier, fully prepaid, in a sealed envelope addressed to the intended recipient as follows:

(a) to the Lessor at: 10050 Bandle Drive Cupertino, California 95014 Attention: Carl E. Berg Fax No: (408) 725-1626

(b) to the Lessee at: 3560 Bassett Street Santa Clara, California  
Attention: Charley Eddy Fax No: 408.727.5739

or such other addresses, facsimile number or individual as may be designated by a Communication given by a party to the other parties as aforesaid. Any Communication given by personal delivery shall be conclusively deemed to have been given and received on a date it is so delivered at such address provided that such date is a business day, otherwise on the first business day following its receipt, and if given by registered or certified mail, on the day on which delivery is made or refused or if given by recognized overnight courier, on the first business day following deposit with such overnight courier and if given by facsimile transmission, on the day on which it was transmitted provided such day is a business day, failing which, on the next business day thereafter.

18. ENTRY BY LESSOR: Lessee shall permit Lessor and its agents to enter into and upon said Premises at all reasonable times using the minimum amount of interference and inconvenience to Lessee and Lessee's business, subject to any security regulations of Lessee, for the purpose of inspecting the same or for the purpose of maintaining the building in which said Premises are situated, or for the purpose of making repairs, alterations or additions to any other portion of said building, including the erection and maintenance of such scaffolding, canopies, fences and props as may be required, without any rebate of Rent and without any liability to Lessee for any loss of occupation or quiet enjoyment of the Premises; and shall permit Lessor and his agents, at any time within ninety (90) days prior to the end of the Lease Term, to place upon said Premises any usual or ordinary "For Sale" or "For Lease" signs and exhibit the Premises to prospective tenants at reasonable hours.

19. DESTRUCTION OF PREMISES: In the event of a partial destruction of a building in said Premises during the Lease Term from any cause which is covered by Lessor's property insurance, Lessor shall forthwith repair the same, provided such repairs can be made within one hundred eighty (180) days after receipt of building permit under the laws and regulations of State, Federal, County, or Municipal authorities, but such partial destruction shall in no way annul or void this Lease, except that Lessee shall be entitled to a proportionate reduction of Rent while such repairs are being made to the extent of payments received by Lessor under its Loss of Rents Insurance coverage. With respect to any partial destruction which Lessor is obligated to repair or may elect to repair under the terms of this paragraph, the provision of Section 1932, Subdivision 2, and of Section 1933, Subdivision 4, of the Civil Code of the State of California are waived by Lessee. In the event that a building in the subject Premises is destroyed to an extent greater than thirty-three and one-third percent (33 1/3%) of the replacement cost thereof, Lessor may, at its sole option, elect to terminate this Lease as to that building, whether the subject Premises is insured or not. A total destruction of more than 50% of the subject Premises shall terminate this Lease. Notwithstanding the above, Lessor is only obligated to repair

or rebuild to the extent of available insurance proceeds including any deductible amount paid by Lessee. Should Lessor determine that insufficient or no insurance proceeds are available for repair or reconstruction of Premises, Lessor, at its sole option, may terminate the Lease. Notwithstanding the above, Lessee shall have the option of continuing this Lease by agreeing to pay all repair costs to the subject Premises which are not otherwise reimbursable by insurance.

20. **ASSIGNMENT AND SUBLETTING:** Lessee shall not assign this Lease, or any interest therein, and shall not sublet the said Premises or any part thereof, or any right or privilege appurtenant thereto, or cause any other person or entity, to occupy or use the Premises, or any portion thereof, without the advance written consent of Lessor. Notwithstanding the above, Lessee may, without the consent of Lessor, assign this Lease or sublet all or any part of the Premises to a bona fide subsidiary or affiliate of Lessee, an entity in which or with which Lessee merges or an entity which acquires all or substantially all of the assets of Lessee ("Excepted Party"). Any such assignment or subletting requiring Lessor's consent made without Lessor's consent shall be void, and shall, at the option of the Lessor, terminate this Lease. This Lease shall not, or shall any interest therein, be assignable, as to the interest of Lessee, by operation of law, without the written consent of Lessor. Notwithstanding Lessor's obligation to provide reasonable approval, Lessor reserves the right to withhold its consent for any proposed sublessee or assignee of Lessee if the proposed sublessee or assignee is a user or generator of Hazardous Materials. If Lessee desires to assign its rights under this Lease or to sublet all or any part of the Premises to a party other than an Excepted Party, Lessee shall first notify Lessor of the proposed terms and conditions of such assignment or subletting. Lessor, at its sole option, shall have the right (i) to enter into a direct Lessor-lessee relationship with such party under such proposed terms and conditions, in which event Lessee shall be relieved of its obligations hereunder to the extent of the Lessor-lessee relationship entered into between Lessor and such third party, or (ii) to terminate the Lease and relieve Lessee of all Lease obligations occurring after the termination of the Lease. Notwithstanding the foregoing, Lessee may assign this Lease to an Excepted Party, provided there is no substantial reduction in the net worth of the resulting guarantor. Whether or not Lessor's consent to a sublease or assignment is required, in the event of any sublease or assignment, Lessee shall be and shall remain primarily liable for the performance of all conditions, covenants, and obligations of Lessee hereunder and, in the event of a default by an assignee or sublessee, Lessor may proceed directly against the original Lessee hereunder and/or any other predecessor of such assignee or sublessee without the necessity of exhausting remedies against said assignee or sublessee. If Lessee merges or sells substantially all of its assets and the net worth of the resulting entity is substantially less than that of Lessee, such sale shall be a default under this Lease unless approved by Lessor.

21. **CONDEMNATION:** If any part of the Premises shall be taken for any public or quasi-public use, under any statute or by right of eminent domain or private purchase in lieu thereof, and a part thereof remains which is susceptible of occupation hereunder, this Lease shall as to the part so taken, terminate as of the date title vests in the condemnor or purchaser, and the Rent payable hereunder shall be adjusted so that the Lessee shall be required to pay for the remainder of the Lease Term only that portion of Rent as the value of the part remaining. The rental adjustment resulting will be computed at the same Rental rate for the remaining part not taken; however, Lessor shall have the option to terminate this Lease as of the date when title to the part so taken vests in the condemnor or purchaser. If all of the Premises, or such part thereof be taken so that there does not remain a portion susceptible for occupation hereunder, this Lease shall thereupon terminate. If a part or all of the Premises be taken, all compensation awarded upon such taking shall be payable to the Lessor. Lessee may file a separate claim and be entitled to any award granted to Lessee.

22. **EFFECTS OF CONVEYANCE:** The term "Lessor" as used in this Lease, means only the owner for the time being of the land and building constituting the Premises, so that, in the event of any sale of said land or building, or in the event of a Lease of said building, Lessor shall be and hereby is entirely freed and relieved of all covenants and obligations of Lessor hereunder, and it shall be deemed and construed, without further agreement between the parties and the

purchaser of any such sale, or the Lessor of the building, that the purchaser or lessor of the building has assumed and agreed to carry out any and all covenants and obligations of the Lessor hereunder. If any security is given by Lessee to secure the faithful performance of all or any of the covenants of this Lease on the part of Lessee, Lessor may transfer and deliver the security, as such, to the purchaser at any such sale of the building, and thereupon the Lessor shall be discharged from any further liability.

23. **SUBORDINATION:** This Lease, in the event Lessor notifies Lessee in writing, shall be subordinate to any ground lease, deed of trust, or other hypothecation for security now or hereafter placed upon the real property at which the Premises are a part and to any and all advances made on the security thereof and to renewals, modifications, replacements and extensions thereof. Lessee agrees to promptly execute any documents which may be required to effectuate such subordination. Notwithstanding such subordination, if Lessee is not in default and so long as Lessee shall pay the Rent and observe and perform all of the provisions and covenants required under this Lease, Lessee's right to quiet possession of the Premises shall not be disturbed or effected by any subordination.

24. **WAIVER:** The waiver by Lessor or Lessee of any breach of any term, covenant or condition, herein contained shall not be construed to be a waiver of such term, covenant or condition or any subsequent breach of the same or any other term, covenant or condition therein contained. The subsequent acceptance of Rent hereunder by Lessor shall not be deemed to be a waiver of Lessee's breach of any term, covenant, or condition of the Lease.

25. **HOLDING OVER:** Any holding over after the end of the Lease Term requires Lessor's written approval prior to the end of the Lease Term, which, notwithstanding any other provisions of this Lease, Lessor may withhold. Such holding over shall be construed to be a tenancy at sufferance from month to month. Lessee shall pay to Lessor monthly base rent equal to one and one-half (1.5) times the monthly base rent installment due in the last month of the Lease Term and all other additional rent and all other terms and conditions of the Lease shall apply, so far as applicable. Holding over by Lessee without written approval of Lessor shall subject Lessee to the liabilities and obligations provided for in this Lease and by law, including, but not limited to those in Section 2.1 of this Lease. Lessee shall indemnify and hold Lessor harmless against any loss or liability resulting from any delay caused by Lessee in surrendering the Premises, including without limitation, any claims made or penalties incurred by any succeeding lessee or by Lessor. No holding over shall be deemed or construed to exercise any option to extend or renew this Lease in lieu of full and timely exercise of any such option as required hereunder.

26. **LESSOR'S LIABILITY:** If Lessee should recover a money judgment against Lessor arising in connection with this Lease, the judgment shall be satisfied only out of the Lessor's interest in the Premises and neither Lessor nor any of its partners shall be liable personally for any deficiency.

27. **ESTOPPEL CERTIFICATES:** Lessee shall at any time during the Lease Term, upon not less than ten (10) days prior written notice from Lessor, execute and deliver to Lessor a statement in writing certifying that, this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification) and the dates to which the Rent and other charges have been paid in advance, if any, and acknowledging that there are not, to Lessee's knowledge, any uncured defaults on the part of Lessor hereunder or specifying such defaults if they are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises. Lessee's failure to deliver such a statement within such time shall be conclusive upon the Lessee that (a) this Lease is in full force and effect, without modification except as may be represented by Lessor; (b) there are no uncured defaults in Lessor's performance.

28. **TIME:** Time is of the essence of the Lease.

29. CAPTIONS: The headings on titles to the paragraphs of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part thereof. This instrument contains all of the agreements and conditions made between the parties hereto and may not be modified orally or in any other manner than by an agreement in writing signed by all of the parties hereto or their respective successors in interest.

30. PARTY NAMES: Landlord and Tenant may be used in various places in this Lease as a substitute for Lessor and Lessee respectively.

31. EARTHQUAKE INSURANCE: If Lessor desires to obtain some form of earthquake insurance in the future, if and when available, on terms acceptable to Lessor as determined in the sole and absolute discretion of Lessor, then as a condition of Lessor agreeing to waive the requirement for earthquake insurance, Lessee agrees that it will pay, as additional Rent, which shall be included in the monthly CAC, an amount not to exceed Forty Seven Thousand Eight Hundred and Thirty Three Dollars (\$47,833) per year.

32. HABITUAL DEFAULT: Notwithstanding anything to the contrary contained in Section 14 herein, Lessor and Lessee agree that if Lessee shall have defaulted in the payment of Rent for two or more times during any twelve month period during the Lease Term, then such conduct shall, at the option of the Lessor, represent a separate event of default which cannot be cured by Lessee. Lessee acknowledges that the purpose of this provision is to prevent repetitive defaults by the Lessee under the Lease, which constitute a hardship to the Lessor and deprive the Lessor of the timely performance by the Lessee hereunder.

### 33. HAZARDOUS MATERIALS

33.1 DEFINITIONS: As used in this Lease, the following terms shall have the following meaning:

a. The term "Hazardous Materials" shall mean (i) polychlorinated biphenyls; (ii) radioactive materials and (iii) any chemical, material or substance now or hereafter defined as or included in the definitions of "hazardous substance" "hazardous water", "hazardous material", "extremely hazardous waste", "restricted hazardous waste" under Section 25115, 25117 or 15122.7, or listed pursuant to Section 25140 of the California Health and Safety Code, Division 20, Chapter 6.5 (Hazardous Waste Control Law), (ii) defined as "hazardous substance" under Section 25316 of the California Health and Safety Code, Division 20, Chapter 6.8 (Carpenter-Presley-Tanner Hazardous Substances Account Act), (iii) defined as "hazardous material", "hazardous substance", or "hazardous waste" under Section 25501 of the California Health and Safety Code, Division 20, Chapter 6.95 (Hazardous Materials Release, Response, Plans and Inventory), (iv) defined as a "hazardous substance" under Section 25181 of the California Health and Safety Code, Division 201, Chapter 6.7 (Underground Storage of Hazardous Substances), (v) petroleum, (vi) asbestos, (vii) listed under Article 9 or defined as "hazardous" or "extremely hazardous" pursuant to Article II of Title 22 of the California Administrative Code, Division 4, Chapter 20, (viii) defined as "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act, 33 U.S.C. 1251 et seq. or listed pursuant to Section 1004 of the Federal Water Pollution Control Act (33 U.S.C. 1317), (ix) defined as a "hazardous waste", pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. 6901 et seq., (x) defined as "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Responsibility Compensations, and Liability Act, 42 U.S.C. 9601 et seq., or (xi) regulated under the Toxic Substances Control Act, 156 U.S.C. 2601 et seq.

b. The term "Hazardous Materials Laws" shall mean any local, state and federal laws, rules, regulations, or ordinances relating to the use, generation, transportation, analysis, manufacture, installation, release, discharge, storage or disposal of Hazardous Material.

c. The term "Lessor's Agents" shall mean Lessor's agents, representatives, employees, contractors, subcontractors, directors, officers and partners.

d. The term "Lessee's Agents" shall mean Lessee's agents, representatives, employees, contractors, subcontractors, directors, officers, partners, invitees or any other person in or about the Premises.

33.2 LESSEE'S RIGHT TO INVESTIGATE: Lessee shall be entitled to cause such inspection, soils and ground water tests, and other evaluations to be made of the Premises as Lessee deems necessary regarding (i) the presence and use of Hazardous Materials in or about the Premises, and (ii) the potential for exposure to Lessee's employees and other persons to any Hazardous Materials used and stored by previous occupants in or about the Premises. Lessee shall provide Lessor with copies of all inspections, tests and evaluations. Lessee shall indemnify, defend and hold Lessor harmless from any cost, claim or expense arising from such entry by Lessee or from the performance of any such investigation by such Lessee.

33.3 INTENTIONALLY OMITTED.

33.4 LESSEE'S OBLIGATION TO INDEMNIFY: Lessee, at its sole cost and expense, shall indemnify, defend, protect and hold Lessor and Lessor's Agents harmless from and against any and all cost or expenses, including those described under subparagraphs i, ii and iii herein below set forth, arising from or caused in whole or in part, directly or indirectly by:

a. Lessee's or Lessee's Agents' use, analysis, storage, transportation, disposal, release, threatened release, discharge or generation of Hazardous Material to, in, on, under, about or from the Premises; or

b. Lessee's or Lessee's Agents failure to comply with Hazardous Material laws; or

c. Any release of Hazardous Material to, in, on, under, about, from or onto the Premises caused by or occurring as a result of acts or omissions of Lessee or Lessee's Agents, except ground water contamination from other parcels where the source is from off the Premises not arising from or caused by Lessee or Lessee's Agents.

The cost and expenses indemnified against include, but are not limited to the following:

i. Any and all claims, actions, suits, proceedings, losses, damages, liabilities, deficiencies, forfeitures, penalties, fines, punitive damages, cost or expenses;

ii. Any claim, action, suit or proceeding for personal injury (including sickness, disease, or death), tangible or intangible property damage, compensation for lost wages, business income, profits or other economic loss, damage to the natural resources of the environment, nuisance, pollution, contamination, leaks, spills, release or other adverse effects on the environment;

iii. The cost of any repair, clean-up, treatment or detoxification of the Premises necessary to bring the Premises into compliance with all Hazardous Material Laws, including the preparation and implementation of any closure, disposal, remedial action, or other actions with regard to the Premises, and expenses (including, without limitation, reasonable attorney's fees and consultants fees, investigation and laboratory fees, court cost and litigation expenses).

33.5 LESSEE'S OBLIGATION TO REMEDIATE CONTAMINATION: Lessee shall, at its sole cost and expense, promptly take any and all action necessary to remediate contamination of the Premises by Hazardous Materials occurring as a result of acts or omissions of Lessee or Lessee's Agents.

33.6 OBLIGATION TO NOTIFY: Lessor and Lessee shall each give written notice to the other as soon as reasonably practical of (i) any communication received from any governmental authority concerning Hazardous Material which related to the Premises and (ii) any contamination of the Premises by Hazardous Materials which constitutes a violation of any Hazardous Material Laws.

33.7 SURVIVAL: The obligations of Lessee under this Section 33 shall survive the Lease Term or earlier termination of this Lease.

33.8 CERTIFICATION AND CLOSURE: On or before the end of the Lease Term or earlier termination of this Lease, Lessee shall deliver to Lessor a certification executed by Lessee stating that, to the best of Lessee's knowledge, there exists no violation of Hazardous Material Laws resulting from Lessee's obligation in Paragraph 33. If pursuant to local ordinance, state or federal law, Lessee is required, at the expiration of the Lease Term, to submit a closure plan for the Premises to a local, state or federal agency, then Lessee shall comply at its sole cost and expense with the requirements of the closure plan and furnish to Lessor a copy of such plan.

33.9 PRIOR HAZARDOUS MATERIALS: Lessee shall have no obligation to clean up or to hold Lessor harmless with respect to any Hazardous Material or wastes discovered on the Premises which were not introduced into, in, on, about, from or under the Premises during Lessee's prior occupancy or during the Lease Term or ground water contamination from other parcels where the source is from off the Premises not arising from or caused by Lessee or Lessee's Agents. Lessee will reimburse Lessor for its pro-rata share of Environmental Surcharges related to the Premises. As of the time of signing of this Lease, Lessor was not aware of any Environmental Surcharges due or expected to be due related to the Premises.

34. BROKERS: Lessor and Lessee represent that they have not utilized or contacted a real estate broker or finder with respect to this Lease. Lessee agrees to indemnify and hold Lessor harmless against any claim, cost, liability or cause of action asserted by any broker or finder claiming through Lessee. Lessor represents and warrants that it has not utilized or contacted a real estate broker or finder with respect to this Lease and Lessor agrees to indemnify and hold Lessee harmless against any claim, cost, liability or cause of action asserted by any broker or finder claiming through Lessor.

#### 35. OPTION TO EXTEND

A. OPTION: Lessor hereby grants to Lessee one (1) option to extend the Lease Term, with the extended term to be for a period of five (5) years, on the following terms and conditions:

(i) Lessee shall give Lessor written notice of its exercise of its option to extend no earlier than twelve (12), nor later than six (6) calendar months before the Lease Term would end but for said exercise. If Lessee and Lessor have not agreed to rental terms in writing, Lessee may withdraw its notice of exercise of an extension option prior to six (6) months before the Lease Term would end but for said exercise. Lessor shall provide Lessee with Lessor's proposed base monthly rent for the option period within twenty (20) days of Lessee's written request. Lessee's acceptance, in writing, of Lessor's proposed base monthly rent shall operate to

extend the Lease Term. Upon any extension of the Lease Term pursuant to this Section 35, the term "Lease Term" as used in this Lease shall thereafter include the then extended term. Time is of the essence.

(ii) Lessee may not extend the Lease Term pursuant to any option granted by this Section 35 if Lessee is in default as of the date of the exercise of its option. If Lessee has committed a default by Lessee as defined in Section 14 or 32 that has not been cured or waived by Lessor in writing by the date that any extended term is to commence, then Lessor may elect not to allow the Lease Term to be extended, notwithstanding any notice given by Lessee of an exercise of this option to extend.

(iii) All terms and conditions of this Lease shall apply during the extended term, except that the base rent and rental increases for each extended term shall be determined as provided in Section 35 (B) below

(iv) The option rights of Intevac granted under this Section 35 are granted for Intevac's personal benefit and may not be assigned or transferred by Intevac or exercised if Intevac is not occupying the Premises at the time of exercise.

**B. EXTENDED TERM RENT - OPTION PERIOD:** The monthly Rent for the Premises during the extended term shall equal the fair market monthly Rent for the Premises as of the commencement date of the extended term, but in no case, less than the Rent during the last month of the prior Lease term. Promptly upon Lessee's exercise of the option to extend, Lessee and Lessor shall meet and attempt to agree on the fair market monthly Rent for the Premises as of the commencement date of the extended term. In the event the parties fail to agree upon the amount of the monthly Rent for the extended term prior to commencement thereof, the monthly Rent for the extended term shall be determined by appraisal in the manner hereafter set forth; provided, however, that in no event shall the monthly Rent for the extended term be less than in the immediate preceding period. Annual base rent increases during the extended term shall be four percent (4%) per year. In the event it becomes necessary under this paragraph to determine the fair market monthly Rent of the Premises by appraisal, Lessor and Lessee each shall appoint a real estate appraiser who shall be a member of the American Institute of Real Estate Appraiser ("AIREA") and such appraisers shall each determine the fair market monthly Rent for the Premises taking into account the value of the Premises and the amenities provided by the outside areas, the common areas, and the Building, and prevailing comparable Rentals in the area. Such appraisers shall, within twenty (20) business days after their appointment, complete their appraisals and submit their appraisal reports to Lessor and Lessee. If the fair market monthly Rent of the Premises established in the two

(2) appraisals varies by five percent (5%) or less of the higher Rent, the average of the two shall be controlling. If said fair market monthly Rent varies by more than five percent (5%) of the higher Rental, said appraisers, within ten

(10) days after submission of the last appraisal, shall appoint a third appraiser who shall be a member of the AIREA and who shall also be experienced in the appraisal of Rent values and adjustment practices for commercial properties in the vicinity of the Premises. Such third appraiser shall, within twenty (20) business days after his appointment, determine by appraisal the fair market monthly Rent of the Premises taking into account the same factors referred to above, and submit his appraisal report to Lessor and Lessee. The fair market monthly Rent determined by the third appraiser for the Premises shall be controlling, unless it is less than that set forth in the lower appraisal previously obtained, in which case the value set forth in said lower appraisal shall be controlling, or unless it is greater than that set forth in the higher appraisal previously obtained in which case the Rent set for in said higher appraisal shall be controlling. If either Lessor or Lessee fails to appoint an appraiser, or if an appraiser appointed by either of them fails, after his appointment to submit his appraisal within the required period in accordance with the foregoing, the appraisal submitted by the appraiser properly appointed and timely submitting his appraisal shall be controlling. If the two appraisers appointed by Lessor and Lessee are unable to agree upon a third appraiser within the required period in accordance with the foregoing, application shall be made within twenty (20) days thereafter by either Lessor or Lessee to AIREA, which shall appoint

a member of said institute willing to serve as appraiser. The cost of all appraisals under this subparagraph shall be borne equally by Lessor and Lessee.

36. **APPROVALS:** Whenever in this Lease the Lessor's or Lessee's consent is required, such consent shall not be unreasonably or arbitrarily withheld or delayed. In the event that the Lessor or Lessee does not respond to a request for any consents which may be required of it in this Lease within ten business days of the request of such consent in writing by the Lessee or Lessor, such consent shall be deemed to have been given by the Lessor or Lessee.

37. **AUTHORITY:** Each party executing this Lease represents and warrants that he or she is duly authorized to execute and deliver the Lease. If executed on behalf of a corporation, that the Lease is executed in accordance with the by-laws of said corporation (or a partnership that the Lease is executed in accordance with the partnership agreement of such partnership), that no other party's approval or consent to such execution and delivery is required, and that the Lease is binding upon said individual, corporation (or partnership) as the case may be in accordance with its terms.

38. **INDEMNIFICATION OF LESSOR:** Except to the extent caused by the sole negligence or willful misconduct of Lessor or Lessor's Agents, Lessee shall defend, indemnify and hold Lessor harmless from and against any and all obligations, losses, costs, expenses, claims, demands, attorney's fees, investigation costs or liabilities on account of, or arising out of the use, condition or occupancy of the Premises or any act or omission to act of Lessee or Lessee's Agents or any occurrence in, upon, about or at the Premises, including, without limitation, any of the foregoing provisions arising out of the use, generation, manufacture, installation, release, discharge, storage, or disposal of Hazardous Materials by Lessee or Lessee's Agents. It is understood that Lessee is and shall be in control and possession of the Premises and that Lessor shall in no event be responsible or liable for any injury or damage or injury to any person whatsoever, happening on, in, about, or in connection with the Premises, or for any injury or damage to the Premises or any part thereof. This Lease is entered into on the express condition that Lessor shall not be liable for, or suffer loss by reason of injury to person or property, from whatever cause, which in any way may be connected with the use, condition or occupancy of the Premises or personal property located herein. The provisions of this Lease permitting Lessor to enter and inspect the Premises are for the purpose of enabling Lessor to become informed as to whether Lessee is complying with the terms of this Lease and Lessor shall be under no duty to enter, inspect or to perform any of Lessee's covenants set forth in this Lease. Lessee shall further indemnify, defend and hold harmless Lessor from and against any and all claims arising from any breach or default in the performance of any obligation to Lessee's part to be performed under the terms of this Lease. The provisions of Section 38 shall survive the Lease Term or earlier termination of this Lease with respect to any third party claims, damage, injury or death occurring during the Lease Term.

39. **SUCCESSORS AND ASSIGNS:** The covenants and conditions herein contained shall, subject to the provisions as to assignment, apply to and bind the heirs, successors, executors, administrators and assigns of all of the parties hereto; and all of the parties hereto shall be jointly and severally liable hereunder.

40. **MISCELLANEOUS PROVISIONS:** All rights and remedies hereunder are cumulative and not alternative to the extent permitted by law and are in addition to all other rights or remedies in law and in equity.

41. **CHOICE OF LAW:** This lease shall be construed and enforced in accordance with the substantive laws of the State of California. The language of all parts of this lease shall in all cases be construed as a whole according to its fair meaning and not strictly for or against either Lessor or Lessee.

42. ENTIRE AGREEMENT: This Lease is the entire agreement between the parties, and there are no agreements or representations between the parties except as expressed herein. Except as otherwise provided for herein, no subsequent change or addition to this Lease shall be binding unless in writing and signed by the parties hereto.

In Witness Whereof, Lessor and Lessee have executed this Lease, the day and year first above written.

LESSOR  
MISSION WEST PROPERTIES, L.P. III  
BY: MISSION WEST PROPERTIES, INC.,  
ITS GENERAL PARTNER

LESSEE  
INTEVAC CORPORATION

By: /s/ Carl E. Berg  
-----  
Signature of authorized representative

By: /s/ Charles B. Eddy  
-----  
Signature of authorized representative

Carl E. Berg  
-----  
Printed name

Charles B. Eddy  
-----  
Printed name

President  
-----  
Title

Chief Financial Officer  
-----  
Title

2/7/01  
-----  
Date

2-5-01  
-----  
Date

[MAP OF SITE PLAN]

## **EXHIBIT 21.1**

### **SUBSIDIARIES OF THE REGISTRANT**

1. Lotus Technologies, Inc. -- California
2. Intevac Foreign Sales Corporation -- Barbados
3. Intevac Asia Private Limited -- Singapore
4. Intevac Malaysia Sdn Bhd - Malaysia
5. IRPC, Inc. -- California

**EXHIBIT 23.1**

**CONSENT OF GRANT THORNTON LLP, INDEPENDENT AUDITORS**

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-99648, 333-35801, 333-65421, 333-96529 and 333-50166) pertaining to the 1995 Stock Option/Stock Issuance Plan and the Employee Stock Purchase Plan and in the Registration Statement (Form S-3 No. 333-24275) of Intevac, Inc. of our report dated January 26, 2001, with respect to the consolidated financial statements and schedule of Intevac, Inc. included in the Annual Report (Form 10-K) as of and for the year ended December 31, 2000.

*/s/ GRANT THORNTON LLP*

*San Jose, California  
March 8, 2001*

**EXHIBIT 23.2**

**CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS**

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-99648, 333-35801, 333-65421, 333-96529 and 333-50166) pertaining to the 1995 Stock Option/Stock Issuance Plan and the Employee Stock Purchase Plan and in the Registration Statement (Form S-3 No. 333-24275) of Intevac, Inc. of our report dated January 21, 2000, with respect to the consolidated financial statements and schedule of Intevac, Inc. as of and for the two years ended December 31, 1999 included in the Annual Report (Form 10-K) for the year ended December 31, 2000.

*/s/ ERNST & YOUNG LLP*

*San Jose, California*

*March 8, 2001*

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**End of Filing**

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