

INTEVAC INC

FORM 10-Q (Quarterly Report)

Filed 05/08/97 for the Period Ending 03/29/97

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

INTEVAC INC

FORM 10-Q (Quarterly Report)

Filed 5/8/1997 For Period Ending 3/29/1997

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 29, 1997

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.)

**3550 BASSETT STREET
SANTA CLARA, CALIFORNIA 95054**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE, INCLUDING ZIP CODE)

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

**FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR,
IF CHANGED SINCE LAST REPORT.**

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

On March 29, 1997 approximately 12,532,584 shares of the Registrant's Common Stock, no par value, were outstanding.

INTEVAC, INC.

INDEX

NO.		PAGE
-----		----
PART I. FINANCIAL INFORMATION		
ITEM 1.	Financial Statements (unaudited)	
	Condensed Consolidated Balance Sheets.....	3
	Condensed Consolidated Statements of Income.....	4
	Condensed Consolidated Statements of Cash Flows.....	5
	Notes to Consolidated Financial Statements.....	6
	Management's Discussion and Analysis of Financial Condition and Results of	
ITEM 2.	Operations.....	9
PART II. OTHER INFORMATION		
ITEM 1.	Legal Proceedings.....	19
ITEM 2.	Changes in Securities.....	19
ITEM 3.	Defaults Upon Senior Securities.....	19
ITEM 4.	Submission of Matters to a Vote of Security-Holders.....	19
ITEM 5.	Other Information.....	19
ITEM 6.	Exhibits and Reports on Form 8-K.....	19
SIGNATURES.....		21

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTEVAC, INC.

**CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)**

	MARCH 29, 1997	DECEMBER 31, 1996
	-----	-----
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 4,632	\$ 938
Short-term investments.....	58,537	--
Accounts receivable, net of allowances of \$1,256 and \$1,024 at March 29, 1997 and December 31, 1996, respectively.....	12,487	17,570
Inventories.....	28,617	25,666
Short-term note receivable, net of allowance of \$790 and \$1,180 at March 29, 1997 and December 31, 1996, respectively.....	--	--
Prepaid expenses and other current assets.....	754	507
Deferred tax asset.....	4,397	4,397
	-----	-----
Total current assets.....	109,424	49,078
Property, plant, and equipment, net.....	9,961	9,273
Long-term investments.....	2,081	--
Investment in 601 California Avenue LLC.....	2,431	2,431
Goodwill and other intangibles.....	6,762	7,301
Debt issuance costs.....	2,297	--
Deferred tax assets and other assets.....	2	2
	-----	-----
Total assets.....	\$ 132,958	\$ 68,085
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable.....	\$ 1,230	\$ 1,252
Accounts payable.....	5,820	4,465
Accrued payroll and related liabilities.....	1,537	1,937
Other accrued liabilities.....	8,971	4,275
Customer advances.....	18,607	20,702
Net liabilities of discontinued operations.....	583	600
	-----	-----
Total current liabilities.....	36,748	33,231
Convertible notes.....	57,500	--
Long-term notes payable.....	730	730
Deferred tax liability.....	406	388
Shareholders' equity:		
Common stock, no par value.....	17,169	16,747
Retained earnings.....	20,405	16,989
	-----	-----
Total shareholders' equity.....	37,574	33,736
	-----	-----
Total liabilities and shareholders' equity.....	\$ 132,958	\$ 68,085
	=====	=====

See accompanying notes.

INTEVAC, INC.

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

(UNAUDITED)

	THREE MONTHS ENDED	
	March 29, 1997	March 30, 1996
Net revenues.....	\$31,141	\$15,126
Cost of net revenues.....	20,997	9,203
Gross profit.....	10,144	5,923
Operating expenses:		
Research and development.....	2,560	1,379
Selling, general, and administrative.....	2,600	1,887
Total operating expenses.....	5,160	3,266
Operating income.....	4,984	2,657
Interest expense.....	(400)	(26)
Interest income and other, net.....	755	287
Income from continuing operations before income taxes.....	5,339	2,918
Provision for income taxes.....	1,923	1,021
Net income.....	\$ 3,416	\$ 1,897
Net income per share.....	\$0.26	\$0.15
Shares used in per share amounts.....	13,114	12,631

See accompanying notes.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

(UNAUDITED)

	THREE MONTHS ENDED	
	March 29, 1997	March 30, 1996
OPERATING ACTIVITIES		
Net income.....	\$ 3,416	\$ 1,897
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization.....	1,131	335
Gain on sale of Chorus Investment.....	(390)	--
Loss on disposal of equipment.....	16	--
Changes in assets and liabilities.....	5,442	(3,506)
Total adjustments.....	6,199	(3,171)
Net cash and cash equivalents provided by (used in) operating activities.....	9,615	(1,274)
INVESTING ACTIVITIES		
Purchase of investments.....	(60,618)	(2,571)
Proceeds from sale of Chorus Investment.....	390	--
Investment in Cathode Technology Corporation.....	--	(1,074)
Purchase of leasehold improvements and equipment.....	(1,268)	(1,385)
Net cash and cash equivalents used in investing activities.....	(61,496)	(5,030)
FINANCING ACTIVITIES		
Net borrowings under line of credit agreement.....	(2)	--
Notes payable repayments.....	(20)	--
Proceeds from issuance of common stock.....	422	1
Proceeds from convertible bond offering.....	55,175	--
Net cash and cash equivalents provided by financing activities.....	55,575	1
Net increase (decrease) in cash and cash equivalents.....	3,694	(6,303)
Cash and cash equivalents at beginning of period.....	938	20,422
Cash and cash equivalents at end of period.....	\$ 4,632	\$14,119
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Cash paid (received) for:		
Interest.....	\$ 46	\$ --
Income taxes.....	300	1,850
Other non-cash changes:		
Investment in Cathode Technology Corporation through assumption of notes payable.....	\$ --	\$ 1,980

See accompanying notes.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS ACTIVITIES AND BASIS OF PRESENTATION

Intevac, Inc. ("Intevac" or the "Company") is a leading supplier of static sputtering systems and related manufacturing equipment used to manufacture thin-film disks for computer hard disk drives. Sputtering is a complex vacuum deposition process used to deposit multiple thin-film layers on a disk. The Company's primary objective is to be the industry leader in supplying disk sputtering equipment by providing disk sputtering systems which have both the highest overall performance and the lowest cost of ownership in the industry. The Company's principal product, the MDP-250B, which is the fourth generation of the Company's Magnetic Disk Processing ("MDP") system, enables disk manufacturers to achieve high coercivities, high signal-to-noise ratios, minimal disk defects, durability and uniformity, all of which are necessary in the production of high performance, high capacity disks. The Company sells its static sputtering systems and related manufacturing equipment to both captive and merchant thin-film disk manufacturers. The Company sells and markets its products directly in the United States, and through exclusive distributors in Japan and Korea. The Company has established a subsidiary in Singapore and a branch office in Taiwan to support its customers in Southeast Asia.

The Company also realizes revenues from the sales of system components and from contract research and development activities. Intevac's system component business consists primarily of sales of spare parts and after-sale service to purchasers of the Company's disk sputtering systems, as well as sales of components to other manufacturers of vacuum equipment. Contract research and development revenues have been primarily derived from contracts with ARPA for development projects for the flat panel display ("FPD") industry.

The financial information at March 29, 1997 and for the three-month periods ended March 29, 1997 and March 30, 1996 is unaudited, but includes all adjustments (consisting only of normal recurring accruals) that the Company considers necessary for a fair presentation of the financial information set forth herein, in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. For further information, refer to the Consolidated Financial Statements and footnotes thereto included or incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and 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.

The results for the three-month period ended March 29, 1997 are not considered indicative of the results to be expected for any future period or for the entire year.

2. INVESTMENTS

The Company invests its excess cash in high-quality debt instruments. Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. At March 29, 1997 all of the Company's marketable investments were designated as available-for-sale under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The amortized cost of available-for-sale debt securities is adjusted for the amortization and accretion of discounts to maturity. Such amortization is included in investment income. 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. Interest and dividends on the investments are included in interest income.

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following is a summary of the Company's available-for-sale securities:

	MARCH 29, 1997
	(IN THOUSANDS)
Tax-exempt municipal bonds.....	\$ 60,618
Amounts included in short-term investments.....	\$ 58,537
Amounts included in long-term investments.....	2,081
	\$ 60,618
	=====

At March 29, 1997, the carrying amount of securities approximated the fair value (quoted market price), and the amount of unrealized gain or loss was not significant. Gross realized gains and losses for the first quarter of 1997 were not significant. The long-term investments are due within one year to fourteen months.

3. INVENTORIES

The components of inventory consist of the following:

	MARCH 29, 1997	DECEMBER 31, 1996
	(IN THOUSANDS)	
Raw materials.....	\$ 9,531	\$ 6,953
Work-in-progress.....	14,345	11,728
Finished goods.....	4,741	6,985
	\$28,617	\$ 25,666
	=====	=====

A significant portion of the finished goods inventory is represented by completed units at customer sites undergoing installation and acceptance testing.

4. 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, which mature on March 1, 2004. 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 are deferred. Such expenses are being amortized to interest expense over the term of the note.

5. INCOME TAXES

The effective tax rate used for the three-month periods ending March 29, 1997 and March 30, 1996 were 36% and 35% of pretax income, respectively. This rate is based on the estimated annual tax rate complying with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes".

6. NET INCOME PER SHARE

Net income per share is computed using the weighted average number of shares of common stock and common equivalent shares, when dilutive, from convertible notes (using the as-if-converted method) and from stock options (using the treasury stock method). During the first quarter of 1997, the Company issued subordinated convertible notes. These securities are included in fully diluted earnings per share computations for the period outstanding under the "if converted" method. Dual presentation of primary and fully diluted earnings per share is not shown on the face of the income statement because the difference is insignificant.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share" ("SFAS 128"), which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior

INTEVAC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact is expected to result in primary earnings per share for the three-month periods ended March 29, 1997 and March 30, 1996 of \$0.27 and \$0.15 per share, respectively. The impact of SFAS 128 on the calculation of fully diluted earnings per share for these periods is not expected to be material.

7. COMMITMENTS

During the first quarter of 1997 the Company entered into an amended lease with respect to its Santa Clara facilities. Under the terms of the lease amendment, the Company agreed to lease an additional 73,000 square feet from April 1997 through March 2002. In addition, the leases for the remaining space in Santa Clara were extended through March 2002.

Future minimum rental payments under all of the Company's leases at March 29, 1997 are as follows (in thousands):

1997.....	\$1,527
1998.....	2,057
1999.....	2,180
2000.....	2,380
2001.....	2,445
2002.....	615

8. SUBSEQUENT EVENTS

On April 30, 1997 the Company entered into a Line of Credit Agreement with a bank which provides for a total of \$10.0 million in available borrowings. This agreement replaced the Company's prior line of credit which expired on May 1, 1997. The agreement is for a unsecured, revolving line of credit, which is available until May 1, 1998, when the outstanding principal will be payable. The line of credit bears interest, at the option of the Company, at the bank's prime rate or the London Interbank Offering Rate (LIBOR) plus 175 basis points. Interest on advances is due monthly. In the event of default, interest on the outstanding loan increases to 5.00% above the interest rate applicable prior to the default. At March 29, 1997, no amounts were outstanding under the expired agreement. The Company is required to maintain certain financial ratios and other financial conditions including restrictions on its ability to pay dividends.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements which involve risks and uncertainties. The Company's actual results may differ materially from those discussed in the forward-looking statements. Factors that might cause such a difference, include but are not limited to, the risk factors set forth elsewhere in this Quarterly Report on Form 10-Q and other documents the Company files from time to time with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K filed in February 1997, Form 10-Q's and Form 8-K's.

OVERVIEW

Intevac is a leading supplier of static sputtering systems and related manufacturing equipment used to manufacture thin film disks for computer hard disk drives. Sputtering is a complex vacuum deposition process used to deposit multiple thin-film layers on a disk. The Company has three primary sources of net revenues: sales of disk sputtering systems and related disk manufacturing equipment; sales of system components; and contract research and development activities. Disk sputtering systems and related disk manufacturing equipment generally represent the majority of the Company's revenue and are sold to vertically integrated disk drive manufacturers and to original equipment manufacturers that sell disk media to disk drive manufacturers. Intevac's system component business consists primarily of sales of spare parts and after-sale service to purchasers of the Company's disk sputtering systems, as well as sales of components to other manufacturers of vacuum equipment. Contract research and development revenues have been primarily derived from contracts with ARPA for development projects for the flat panel display ("FPD") industry. During the first quarter of 1997 the Company received its first order for the design and delivery of a scaled up version of its D-Star FPD sputtering machine. To date, revenue from the sale of FPD sputtering equipment has not been.

In the first quarter of 1996, the Company acquired Cathode Technology Corporation ("CTC"), a designer and manufacturer of magnetron sputter sources for use in the Company's disk sputtering systems. In the second quarter of 1996, the Company acquired San Jose Technology Corp. ("SJT") and Lotus Technologies, Inc. ("Lotus"). SJT is a manufacturer of systems used to lubricate thin film disks. Lotus is a manufacturer of contact stop/start test equipment for disk drives and drive components.

In the first quarter of 1997, the Company completed the sale of \$57.5 million of its 6 1/2% Convertible Subordinated Notes Due 2004 (the "Convertible Notes").

The Company's backlog was \$65.0 million and \$45.6 million at March 29, 1997 and March 30, 1996, respectively.

RESULTS OF OPERATIONS

Three Months Ended March 29, 1997 and March 30, 1996

Net revenues. Net revenues consist primarily of sales of the Company's disk sputtering systems and related equipment used to manufacture thin-film disks for computer hard disk drives, and to a lesser extent, system components and contract research and development. Net revenues from the sales of sputtering systems are recognized upon customer acceptance. Sales of related equipment and system components are recognized upon product shipment, and contract research and development is recognized in accordance with contract terms, typically as costs are incurred. Net revenues increased by 106% to \$31.1 million for the three months ended March 29, 1997 from \$15.1 million for the three months ended March 30, 1996. The increase in net revenues was primarily due to an increase in the sales of disk sputtering systems, and to a lesser extent the sales of related equipment sold by the SJT and Lotus divisions, which were both acquired by the Company during the second quarter of 1996.

International sales increased by 118% to \$14.7 million for the three months ended March 29, 1997 from \$6.7 million for the three months ended March 30, 1996. The increase in revenues from international sales was primarily due to an increase in the sales of disk sputtering systems and to a lesser extent the sales of related equipment by the SJT and Lotus divisions. International sales constituted 47% of net revenues for the three months ended March 29, 1997 and 45% of net revenues for the three months ended March 30, 1996.

Gross margin. Cost of net revenues consists primarily of purchased materials, fabrication, assembly, test, installation, international distributor costs, warranty costs, scrap and costs attributable to contract research and development. Gross margin was 32.6% for the three months ended March 29, 1997 as compared to 39.2% for the three months ended March 30, 1996. Overall gross margins declined primarily as the result of lower gross margins on disk sputtering system sales, and to a lesser extent as the result of goodwill amortization relating to the purchase of CTC, SJT and Lotus and an increased level of contract research and development.

Research and development. Research and development expense consists primarily of prototype materials, salaries and related costs of employees engaged in ongoing research, design and development activities for disk sputtering equipment, flat panel manufacturing equipment, laser texturing equipment, contact stop-start test equipment, disk lubrication equipment and research by the Advanced Technology Division. Company funded research and development expense increased by 86% to \$2.6 million for the three months ended March 29, 1997 from \$1.4 million for the three months ended March 30, 1996, representing 8.2% and 9.1%, respectively, of net revenue. This increase was primarily the result of increased expense for the development of disk sputtering products, flat panel display manufacturing machines, contact stop start test equipment and company funded research and development in the Advanced Technology Division.

Research and development expenses do not include costs of \$0.4 million in the three months ended March 30, 1996, reimbursed under the terms of a research and development cost sharing agreement with the Company's Japanese flat panel manufacturing equipment ("D-Star") development partner. Under the terms of the development agreement, Intevac and its development partner each paid half of D-Star development costs. At December 31, 1996 there was no balance remaining under the development agreement. The Company is currently discussing further cost sharing agreements with its development partner, but there can be no assurance that any further cost sharing agreements will be made.

Selling, general and administrative. Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial, travel, management, legal and professional services. The Company sells and markets its products directly in the United States, and through exclusive distributors in Japan and Korea. Distributors typically provide services such as sales, installation, warranty and ongoing customer support. International distributor costs are included in cost of net revenues. The Company has a subsidiary in Singapore and a branch office in Taiwan to support customers in Southeast Asia. Selling, general and administrative expense increased by 38% to \$2.6 million for the three months ended March 29, 1997 from \$1.9 million for the three months ended March 30, 1996 representing 8.3% and 12.5%, respectively, of net revenue. The increase in selling, general and administrative expense in absolute dollars was primarily the result of increased expense associated with the marketing and support of disk sputtering systems, and to a lesser extent, increased expense associated with the marketing and support of related equipment by the SJT and Lotus divisions. Selling, general and administrative headcount grew to 85 employees at March 29, 1997 from 55 employees at March 30, 1996.

Other income, net. Other income consists primarily of income related to the sale of the Company's 20% interest in the capital stock of Chorus, interest income on the Company's investments and early payment discounts on the purchase of inventories, goods and services, offset by interest expense. Other income, net increased by 36% to \$0.4 million for the three months ended March 29, 1997 from \$0.3 million for the three months ended March 30, 1996 as the result of increased income related to the sale of the Company's 20% interest in the capital stock of Chorus which was partially offset by an increase in net interest expense as the result of the Company's sale of its Convertible Notes in the first quarter of 1997.

Provision for income taxes. Income tax expense as a percentage of pretax income for the three months ended March 29, 1997 and March 30, 1996, was 36% and 35%, respectively. The Company's tax rate for these periods differs from the applicable statutory rates primarily due to tax exempt interest income and state income taxes.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities provided cash of \$9.6 million for the three months ended March 29, 1997. The cash provided in 1997 was due primarily to net income, increased accrued expense and accounts

payable, decreased accounts receivable and depreciation which was partially offset by increased inventory and reduced customer advances.

The Company's investing activities used cash of \$61.5 million for the three months ended March 29, 1997 due primarily to the purchase of investments, and to a lesser extent, the purchase of capital equipment and leasehold improvements.

The Company's financing activities provided cash of \$55.6 million for the three months ended March 29, 1997, primarily due to the sale by the Company of its Convertible Notes.

CERTAIN FACTORS WHICH MAY AFFECT FUTURE OPERATING RESULTS

Fluctuations of Results of Operations

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

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

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

and shipment reschedulings, market acceptance of the Company's products, unanticipated delays in design, engineering or production or in customer acceptance of product shipments, changes in pricing by the Company or its competitors, the timing of product announcements or introductions by the Company or its competitors, discounts offered by the Company to sell demonstration units, the mix of systems sold, the relative proportions of sputtering systems, system components and subassemblies, and contract research and development net revenues, the availability and cost of components and subassemblies, changes in product development costs, expenses associated with acquisitions and exchange rate fluctuations. Over the last nine quarters the Company's gross margin and operating income (loss) as a percentage of net revenues has fluctuated from approximately 31% to 40% of net revenues and (9)% to 21% of net revenues, respectively. The Company anticipates that its gross and operating margin will continue to fluctuate. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance.

Cyclicality of the Media Industry

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

Sales of the Company's systems depend, in significant part, upon the decision of a prospective customer to replace obsolete equipment or to increase manufacturing capacity by upgrading or expanding existing manufacturing facilities or constructing new manufacturing facilities, all of which typically involve a significant capital commitment. In addition, the cyclicality of the disk drive industry, among other factors, may cause prospective customers to postpone decisions regarding major capital expenditures, including purchases of the Company's systems. In the event customers delay the purchase of the Company's systems, the Company's business, financial condition and results of operations could be materially adversely affected.

Intense Competition

The Company experiences intense competition worldwide from three principal competitors, Ulvac Japan, Ltd. ("Ulvac"), Balzars A.G. ("Balzars") and Anelva Corporation ("Anelva"), each of which is a large manufacturer of complex vacuum equipment and thin-film disk manufacturing systems and has sold a substantial number of thin-film disk sputtering machines worldwide. Each of Ulvac, Balzars and Anelva is a manufacturer of in-line and static sputtering systems, and each has substantially greater financial, technical, marketing, manufacturing and other resources than the Company. The Company also experiences competition from other manufacturers of in-line sputtering systems used in thin-film disk fabrication facilities as well as the manufacturers of thin-film disks that have developed the capability to manufacture their own sputtering systems. There can be no assurance that the Company's competitors will not develop enhancements to, or future generations of, competitive products that will offer superior price or performance features or that new competitors will not enter the Company's markets and develop such enhanced products. Furthermore, the failure of manufacturers of thin-film disks currently using in-line machines and manufacturers using internally

developed sputtering systems to switch to static sputtering systems in the future could adversely affect the Company's ability to increase its sputtering system market share.

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

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

Customer Concentration

Historically, a significant portion of the Company's revenues in any particular period have been attributable to sales to a limited number of customers. The Company's largest customers change from period to period as large thin-film disk production facilities are completed and new projects are initiated. Matsubo, the Company's Japanese distributor, Seagate Technology ("Seagate") and HMT Technology accounted for 32%, 32% and 13%, respectively, of the Company's total net revenues in 1996; Seagate, HMT Technology, and Matsubo accounted for 40%, 20% and 17%, respectively, of the Company's total net revenues in 1995; and Trace Storage Technology ("Trace"), Matsubo, Seagate, Varian Associates and Komag accounted for 25%, 15%, 13%, 12% and 10%, respectively, of the Company's total net revenues during 1994.

The Company expects that sales of its products to relatively few customers will continue to account for a high percentage of its net revenues in the foreseeable future. For example, 61% of the Company's backlog at March 29, 1997 was represented by orders from three customers for disk sputtering systems, with each representing 10% or more of the Company's backlog at March 29, 1997. None of the Company's customers has entered into a long-term agreement requiring it to purchase the Company's products. As purchases related to a particular new or expanded fabrication facility are completed, sales to that customer may decrease sharply or cease altogether. If completed contracts are not replaced on a timely basis by new orders from the same or other customers, the Company's net revenues could be adversely affected. The loss of a significant customer, any reduction in orders from any significant customer or the cancellation of a significant order from a customer, including reductions or cancellations due to customer departures from recent buying patterns, financial difficulties of a customer or market, economic or competitive conditions in the disk drive industry, could materially adversely affect the Company's business, financial condition and results of operations.

Limited Number of Opportunities

The Company's business depends upon capital expenditures by manufacturers of thin-film disks, of which there are a limited number worldwide. According to a April 1997 report by TrendFOCUS, an independent market research firm, as of the end of 1996 there were 231 installed disk sputtering lines (sputtering systems and related equipment such as plating, polishing, texturing, lubrication and test equipment as well as related handling equipment) worldwide and only 15 companies in the world with five or more installed disk sputtering lines. Therefore, winning or losing an order from any particular customer could significantly affect the Company's operating results. In addition, the Company's opportunities to sell its systems are further limited by the fact that many of the manufacturers of thin-film disks have adopted an in-line approach as opposed to

the Company's static approach to thin-film disk manufacturing. These manufacturers have invested significant amounts of capital in their in-line systems, and there may be significant resistance to change to a static approach in the future. At times the Company has derived a significant proportion of its net revenues from sales of its systems to manufacturers constructing new thin-film disk fabrication facilities. The construction of new thin-film disk fabrication facilities involves extremely large capital expenditures, resulting in few thin-film disk fabrication facilities being constructed worldwide at any particular time. A substantial investment is also required by disk manufacturers to install and integrate additional thin-film disk manufacturing equipment in connection with upgrading or expanding their existing fabrication facilities. These costs are far in excess of the cost of purchasing the Company's system. The magnitude of such capital expenditures has caused certain thin-film disk manufacturers to forego purchasing significant additional thin-film disk manufacturing equipment. Consequently, only a limited number of opportunities for the Company to sell its systems may exist at any given time.

Rapid Technological Change; New Products

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

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

The Company has expended significant amounts for research and development for its disk sputtering systems, flat panel display manufacturing equipment and other new products under development, such as laser-texturing equipment and electro-optical products.

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

Flat Panel Display Manufacturing Equipment Risks

In 1996, the Company spent approximately \$5.3 million on various programs to fund the development of equipment for use in the flat panel display ("FPD") industry, approximately 59% which was paid for by the Company's development partners. In exchange for certain development funding, the Company has granted to one of its development partners the exclusive rights to manufacture and market the Company's FPD sputtering systems in Japan. As of December 31, 1996, all of the approximately \$5.5 million advanced by the Company's development partner had been applied to qualifying costs. The Company has limited experience in the development, manufacture, sale and marketing of FPD manufacturing equipment, having sold two rapid thermal processing ("RTP") systems to date and having not yet completed development of its FPD sputtering system. Although during the first quarter of 1997 the Company received its first order for the design and delivery of a scaled up version of its D-Star FPD sputtering machine, there can be no assurance that the market for FPD manufacturing equipment targeted by the Company will develop as quickly or to the degree the Company currently anticipates, or that the Company's proposed FPD manufacturing equipment will achieve customer acceptance or that the Company will achieve any net revenues from the sale of its proposed FPD manufacturing equipment. There can be no assurance the Company will receive additional customer sponsored research and development funding in the future. The failure to receive additional customer sponsored research and development funds could result in the Company internally funding the development of such FPD manufacturing equipment, and the costs of such research and development may have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company in any event will continue to fund research and development in the FPD area.

Leverage

In connection with the sale of the Convertible Notes, the Company incurred approximately \$57.5 million in indebtedness which resulted in a substantial increase in the Company's ratio of long-term debt to total capitalization (shareholders' equity plus long-term debt). The ratio at March 29, 1997 and December 31, 1996 was approximately 60.8% and 2.1%, respectively. As a result of this indebtedness, the Company incurred substantial principal and interest obligations. The degree to which the Company is leveraged could have a material adverse effect on the Company'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. The Company's ability to meet its debt service obligations will be dependent on the Company's future performance, which will be subject to financial, business and other factors affecting the operations of the Company, many of which are beyond its control.

Management of Expanding Operations

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

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

Manufacturing Risks

The Company's systems have a large number of components and are highly complex. The Company may experience delays and technical and manufacturing difficulties in future introductions or volume production of new systems or enhancements. In addition, some of the systems built by the Company must be customized to meet individual customer site or operating requirements. The Company has limited manufacturing capacity and may be unable to complete the development or meet the technical specifications of its new systems or enhancements or to manufacture and ship these systems or enhancements in a timely manner. Such an occurrence would materially adversely affect the Company's business, financial condition and results of operations as well as its relationships with customers. In addition, the Company may incur substantial unanticipated costs early in a product's life cycle, such as increased cost of materials due to expediting charges, other purchasing inefficiencies and greater than expected installation and support costs which cannot be passed on to the customer. Any of such events could materially adversely affect the Company's business, financial condition and results of operations. Due to recent increases in demand, the average time between order and shipment of the Company's systems may increase substantially in the future. The Company's ability to quickly increase its manufacturing capacity in response to short-term increases in demand could be limited given the complexity of the manufacturing process, the lengthy lead times necessary to obtain critical components and manufacturing space and the need for highly skilled personnel. The failure of the Company to satisfy any such short-term increases in demand and to keep pace with customer demand would lead to further extensions of delivery times, which could deter customers from placing additional orders, and could adversely affect product quality, which could have a materially adverse effect on the Company's business, financial condition and results of operation.

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

The Company conducts substantially all of its manufacturing activities at its leased facilities in Santa Clara, San Jose and Los Gatos, California. The Company's Santa Clara, San Jose and Los Gatos facilities are located in a seismically active area. A major catastrophe (such as an earthquake or other natural disaster) could result in a prolonged interruption of the Company's business.

Acquisitions

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

The Company incurred a charge to operations of \$5.8 million in the second quarter of 1996 to reflect the purchase of in-process research and development related to the two acquisitions completed in that quarter. In addition, the Company is amortizing intangible assets of approximately \$8.8 million of costs relating to the

three acquisitions completed in 1996. The amortization period for such costs is over the useful lives, which range from two years to seven years. Additionally, unanticipated expenses may be incurred relating to the integration of technologies and research and development and administrative functions. Any acquisition will involve numerous risks, including difficulties in the assimilation of the acquired company's employees, operations and products, uncertainties associated with operating in new markets and working with new customers, the potential loss of the acquired company's key employees as well as the costs associated with completing the acquisition and integrating the acquired company.

Risks Associated With International Sales and Operations

Sales to customers in countries other than the United States accounted for 41%, 20% and 40% of revenues in 1996, 1995 and 1994, respectively. The Company anticipates that international sales will continue to account for a substantial portion of net revenues in the future. In order to effectively service customers located in Singapore and the surrounding region, the Company has established sales and service operations in Singapore and Taiwan. Sales and operating activities outside of the United States are subject to certain inherent risks, including fluctuations in the value of the United States dollar relative to foreign currencies, tariffs, quotas, taxes and other market barriers, political and economic instability, restrictions on the export or import of technology, potentially limited intellectual property protection, difficulties in staffing and managing international operations and potentially adverse tax consequences. There can be no assurance that any of these factors will not have a material adverse effect on the Company's business, financial condition or results of operations. In particular, although the Company's international sales have been denominated in United States dollars, such sales and expenses may not be denominated in dollars in the future, and currency exchange fluctuations in countries where the Company does business could materially adversely affect the Company's business, financial condition and results of operations.

Patents and Other Intellectual Property

The Company currently has 23 patents issued in the United States, and has pending patent applications in the United States and foreign countries. Of the 23 patents, 7 relate to sputtering, 10 relate to RTP, 1 relates to lubrication systems and 5 relate to other areas not in Intevac's mainstream business. In addition, the Company has the right to utilize certain patents under licensing arrangements with Litton Industries, Varian Associates, Stanford University, Lawrence Livermore Laboratories and Alum Rock Technology. There can be no assurance that any of the Company's patent applications will be allowed or that any of the allowed applications will be issued as patents. There can be no assurance that any patent owned by the Company will not be invalidated, deemed unenforceable, circumvented or challenged, that the rights granted thereunder will provide competitive advantages to the Company or that any of the Company's pending or future patent applications will be issued with claims of the scope sought by the Company, if at all. Furthermore, there can be no assurance that others will not develop similar products, duplicate the Company's products or design around the patents owned by the Company. In addition, there can be no assurance that foreign patent rights, intellectual property laws or the Company's agreements will protect the Company's intellectual property rights. Failure to protect the Company's intellectual property rights could have a material adverse effect upon the Company's business, financial condition and results of operations.

There have also been substantial amounts of litigation in the technology industry regarding intellectual property rights. The Company has from time to time received claims that it is infringing third parties' intellectual property rights. In August 1993, Rockwell International Corporation ("Rockwell") sued the Federal government alleging infringement of certain patent rights with respect to the contracts the Federal government has had with a number of companies, including Intevac. In the first quarter of 1997, Rockwell's patent in suit was held invalid. However, Rockwell has the right to appeal that decision. The Federal government has notified Intevac that it may be liable in connection with contracts for certain products from the Company's discontinued night vision business. Although the Company believes it will have no material liability under these contracts, there can be no assurance that the resolution of the claims by Rockwell with the Federal government will not have a material adverse effect on the Company's business, operating results and financial condition. In addition, a third party has sent correspondence to a consortium, of which the

Company is a party, in a government sponsored research and development program claiming that the work to be done under this program may infringe patents owned by this third party. The Company and its subcontractors have reviewed the correspondence and patents and believe these claims are without merit; however, there can be no assurance that litigation will not result from such development program. There can be no assurance that other third parties will not in the future claim infringement by the Company with respect to current or future patents, trademarks, or other proprietary rights relating to the Company's disk sputtering systems, flat panel manufacturing equipment or other products. Any present or future claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company, or at all. Any of the foregoing could have a material adverse effect upon the Company's business, operating results and financial condition.

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

Environmental Regulations

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

Dependence on Key Employees

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material legal proceedings to which the Company is a party or to which any of its property is subject.

ITEM 2. CHANGES IN SECURITIES

Recent Sales of Unregistered Securities.

(a) On February 25, 1997, the Registrant sold \$50,000,000 of 6 1/2% Convertible Subordinated Notes due in 2004 (the "Convertible Notes"). On March 5, 1997, the Registrant sold an additional \$7,500,000 of the Convertible Notes.

(b) The initial purchasers of the Convertible Notes were Salomon Brothers Inc., Hambrecht & Quist LLC and Robertson, Stephens & Company LLC (the "Initial Purchasers").

(c) The total offering price of the Convertible Notes was \$57,500,000 with an aggregate discount to the Initial Purchasers of \$2,012,500.

(d) The Registrant relied upon the exemption set forth in Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), for the sale of the Convertible Notes to the Initial Purchasers. The Initial Purchasers intend to resell the Convertible Notes in the United States to qualified institutional buyers under Rule 144A under the Securities Act and to a limited number of other institutional "accredited investors" as defined in Rule 501 of the Securities Act and outside the United States to non-U.S. persons in reliance upon Regulation S under the Securities Act.

(e) The Convertible Notes, unless previously redeemed or repurchased, are convertible at the option of the holder at any time after 90 days following the last day of original issuance thereof and prior to maturity into shares of Common Stock at a conversion price of \$20.625 per share, subject to adjustment in certain events.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are filed herewith:

EXHIBIT NUMBER	DESCRIPTION
10.1	Amendment to Loan and Security Agreement dated February 19, 1997.
10.2	Amendment to Lease effective April 1, 1997.
10.3	Line of Credit Agreement dated April 30, 1997.
11.1	Computation of Net Income Per Share.
27.1	Financial Data Schedule.

The following exhibits were previously filed as exhibits to a Registration Statement on Form S-3 (No. 333-24275) dated March 31, 1997 and are incorporated herein by reference:

EXHIBIT NUMBER	DESCRIPTION
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.
4.3	Registration Agreement, dated as of February 15, 1997, among the Company, Salomon Brothers Inc., Robertson, Stephens & Company LLC and Hambrecht & Quist LLC.

(b) Reports on Form 8-K:

On February 20, 1997, the registrant filed a report on Form 8-K, regarding the offering of the Convertible Notes.

On March 11, 1997, the registrant filed a report on Form 8-K, regarding the sale of \$57,500,000 of the Convertible Notes.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEVAC, INC.

Date: May 8, 1997

By: /s/ NORMAN H. POND

*Norman H. Pond
Chairman of the Board, President and
Chief Executive Officer (Principal
Executive Officer)*

Date: May 8, 1997

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)*

EXHIBIT INDEX

EXHIBIT
NUMBER

10.1	Amendment to Loan and Security Agreement dated February 19, 1997.
10.2	Amendment to Lease effective April 1, 1997.
10.3	Line of Credit Agreement dated April 30, 1997.
11.1	Computation of Net Income Per Share.
27.1	Financial Data Schedule.

EXHIBIT 10.1

[LOGO]

SILICON VALLEY BANK 3003 Tasman Drive Santa Clara, CA 95054-1191 408/654-7400

Charlie Eddy February 19, 1997 Intevac, Inc.
3550 Bassett Dr.
Santa Clara, CA 95054-2758

Re: Loan from Silicon Valley Bank

Dear Charlie:

This letter is written in connection with that certain Loan and Security Agreement between Silicon Valley Bank and Bank of Hawaii (jointly, "Bank") and Intevac, Inc. ("Borrower"), dated September 3, 1996, and related loan documents (as amended from time to time, collectively, the "Loan Agreement"). Borrower has informed Bank of its intent to incur certain indebtedness evidenced by the 6.5% Convertible Subordinated Notes due 2004 issued by Borrower under that certain Indenture dated as of February 25, 1997 executed between Borrower and State Street Bank and Trust Company of California, N.A., as trustee (the "Indenture Transaction"). Borrower has requested that Bank (1) consent to the Indenture and related transaction and (2) confirm that all indebtedness incurred pursuant to the Indenture shall be deemed "Subordinated Debt" for the purposes of the Loan Agreement.

Bank hereby grants consent to the Indenture and related transactions and confirms that all indebtedness incurred in connection with the Indenture shall be deemed "Subordinated Debt" for the purposes of the Loan Agreement, subject to Borrower's agreement to deliver concurrently to Bank copies of any notices of redemption delivered to the holders pursuant to Section 3.03 of the Indenture in connection with any optional redemptions to be made pursuant to Section 3.07 of the Indenture.

By signing below and returning a copy of this letter to Bank, Borrower acknowledges that the Loan Agreement is hereby modified in accordance with the provisions set forth above. Borrower further understands and agrees that in modifying the Loan Agreement, Bank is relying upon Borrower's representations, warranties, and agreements, as set forth in the Loan Agreement. Except as expressly modified pursuant to this letter, the terms of the Loan Agreement remain unchanged and in full force and effect. Bank's agreement to modify the Loan Agreement in accordance with the provisions set forth in this letter in no way shall obligate Bank to make any future modifications to the Loan Agreement or to consent to any future indebtedness of Borrower not otherwise in accordance with the terms of the Loan Agreement. Nothing in this letter shall constitute a satisfaction of the Borrower's indebtedness to Bank. It is the intention of Bank and Borrower to retain as liable parties all makers and endorsers of the Loan Agreement, unless the party is expressly released by in writing. No maker

Intevac, Inc.
February 19, 1997

Page 2

or endorser will be released by virtue of this letter. The terms of this paragraph apply not only to this letter, but also to all subsequent loan modification agreements.

This letter may be executed and countersigned in one or more counterparts which together shall constitute one document. Each such counterpart shall be deemed to be an original when so executed and delivered to the other party to this letter.

The provisions of this letter shall not be deemed effective until such time as Borrower shall have returned two (2) countersigned copies to Silicon Valley Bank.

Very truly yours,

SILICON VALLEY BANK BANK OF HAWAII

By: [SIG]

Its Senior Vice President

By: [SIG]

Its Officer

By executing below, the undersigned acknowledges and confirms the effectiveness of this letter to amend the Loan Agreement.

INTEVAC, INC.

By: [SIG]
Its Chief Financial Officer

Dated: March 5, 1997

EXHIBIT 10.2

**ADDENDUM TO
THE KONTRABECKI GROUP
INDUSTRIAL LEASE**

This Addendum V is executed by and between KONTRABECKI ASSOCIATES I, a California limited partnership as Landlord, and INTEVAC CORPORATION, a California Corporation, as Tenant with respect to those certain Premises commonly known as 3550, 3560, 3570 and 3580 Bassett Street, Santa Clara, CA. This addendum is an integral part of the printed lease to which it is attached; provided, the provisions of this Addendum VI supersede the provisions of the printed lease and the addendum thereto to the extent inconsistent therewith.

1. Premises - Effective April 1, 1997, the term "Premises" as defined in paragraph 1.3 of the Lease shall be modified to include the area outlined on the site plan attached hereto as Exhibit "A5" containing seventy-three thousand and ninety-three (73,093) square feet. Effective April 1, 1997, the Premises Gross Leasable Area shall be equal to one hundred sixty-seven thousand and sixty-three (167,063) square feet (49,080 square feet plus 44,890 square feet plus 73,093).

2. Term - The term as set forth in paragraph 2.2 of the Lease shall be modified as follows:

Address -----	Premises -----	Additional Term -----	Commencement/ Expiration Date -----
3570-3580 Bassett St.	44,890 s.f.	33 months	7/1/99-3/31/02
3560 Bassett St.	73,093 s.f.	60 months	4/1/97-3/31/02
3550 Bassett St.	49,080 s.f.	33 months	7/1/99-3/31/02

3. Rent - The term "Base Rent" as defined in paragraph 3.1 of the Lease shall be modified as follows:

Rent - 3560 Bassett Street:

Year ----	Rent/Mo/NNN -----	Per Square Foot -----
1	\$80,402.30	\$1.10
2	\$82,595.09	\$1.13
3	\$84,787.88	\$1.16
4	\$87,711.60	\$1.20
5	\$89,904.39	\$1.23

Upon expiration of the original lease terms for 3550, 3570, and 3580 Bassett Street (June 30, 1999), the new rent, per square foot, will correspond to the schedule set forth above, so that the rent per square foot is the same each month for all properties.

4. Operating Expenses - Effective April 1, 1997, Tenant's Share of Direct Operating Expenses as set forth in and estimated pursuant to Paragraph 6.4 of the Lease shall increase from one thousand two hundred and no/100's dollars (\$1,200.00) to two thousand two hundred and no/100's dollars (\$2,200.00).

5. Sublease Rights - Tenant will have the right to sublease the new premises in accordance with paragraph 15, 15.1 and 15.2 of the original lease. It is understood that Tenant will have the right to sublease the 3560 Bassett Street premises solely for the purpose of controlling Tenant's expansion space needs without Landlord's permission, and without triggering Landlord's termination rights, providing that any rent received by Tenant that is in excess of Tenant's rent obligations per square foot hereunder shall be paid to Landlord by Tenant, after Tenant recovers any costs incurred in subleasing.

6. Option - At the expiration of the term of the Lease on March 31, 2002, Tenant may extend the term of this Lease for the Premises known as 3550, 3560, 3570, and 3580 Bassett Street for an additional period of sixty (60) months commencing immediately following the Expiration Date (the "Extended Term"). Tenant shall exercise this option, if at all, by giving Landlord notice of Tenant's intention to do so at least one hundred eighty (180) days prior to the Expiration Date. In no event shall any purported exercise of such an option by Tenant be effective if (i) an Event of Default (as defined in Paragraph 16.1) exists at the time of such exercise or at the time the Extended Term would otherwise have commenced, or (ii) more than three (3) Events of Default have occurred during the Lease term prior to the date the Extended Term would otherwise have commenced. Unless expressly mentioned and approved in the written consent of Landlord referred to in Paragraph 15 of this Lease, the option rights of Tenant under this paragraph are granted for Tenant's personal benefit and may not be assigned or transferred by Tenant. Such Extended Term shall be upon all of the terms and conditions hereof, except that the monthly rental and methods of rental adjustment for the Extended Term shall be determined as set forth below.

As the commencement of the Extended Term, the monthly Base Rent and the method of rental adjustment (including the timing of the adjustments and the basis for calculating the adjustments) for the Extended Term shall be subject to negotiations between Landlord and Tenant, with an effort to determine a fair market rental for the Premises, as improved, and a method of rental adjustment consistent with rental

adjustment practices for comparable lease space in the vicinity of the Premises. In the event the parties fail to agree upon the amount of the monthly Base Rent and the methods of rental adjustment for the Extended Term prior to the commencement thereof, the monthly Base Rent and the method of rental adjustment for the Extended Term shall be determined by appraisal in the manner hereafter set forth; provided, however, that in no event shall the monthly Base Rent for the Extended Term be less than the monthly Base Rent payable hereunder for the last full month of the Lease term immediately preceding commencement of the Extended Term.

In the event it becomes necessary under this subparagraph to determine the fair market monthly Base Rent and the method of rental adjustment of the Premises by appraisal, Landlord and Tenant each shall appoint a real estate appraiser who shall be a member of the American Institute of Real Estate Appraisers ("AIREA") and such appraisers

shall each determine the fair market monthly Base Rent for the Premises, and the methods of rental adjustments taking into account the value of the premises and the amenities provided by the Outside Areas, the Building, and prevailing comparable rentals and rental adjustment practices in the area. Such appraisers shall, within twenty (20) business days after their appointment, complete their appraisals and submit their appraisal reports to Landlord and Tenant. If the fair market monthly Base Rent of the Premises established in the two (2) appraisals varies by more than five percent (5%) or less of the higher rental, the average of the two shall be controlling. If said fair market monthly Base 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 rental 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 Base Rent of the Premises, taking into account the same factors referred to above, and submit his appraisal report to Landlord and Tenant. The fair market monthly Base Rent determined by the third appraiser for the Premises shall be controlling, unless it is less than 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 rental set forth in said higher appraisal shall be controlling. The method of adjusting rental periodically, including the manner and timing of such adjustments, shall be as determined by the initial two appraisers, if they agree on a single method; otherwise, it shall be determined by the third appraiser. If either Landlord or Tenant 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 forgoing, the appraisal submitted by the appraiser properly appointed and timely submitting his appraisal shall be controlling. If the two appraisers appointed by Landlord and Tenant are unable to agree upon a third appraiser within the required period in accordance with the forgoing, application shall be made within twenty (20) days thereafter by either Landlord or Tenant to the 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 Landlord and Tenant.

7. Parking - Effective April 1, 1997, parking for the Premises, as set forth in Paragraph 2.1 of the Lease, shall increase from three hundred fifteen (315) spaces to five hundred sixty seven (567) spaces. One hundred seventy one (171) spaces are allocated to the Building known as 3550 Bassett Street, Santa Clara, California, two hundred fifty two (252) spaces are allocated to the Building known as 3560 Bassett Street, Santa Clara, California, and one hundred forty four (144) spaces are allocated to the Building known as 3570-3580 Bassett Street, Santa Clara, California.

8. Except as provided herein, all other terms and conditions of the Lease shall be as previously set forth and are hereby ratified, affirmed, and in full force and effect.

LANDLORD

KONTRABECKI ASSOCIATES I

By: /s/ J. T. KONTRABECKI

Its: General Partner

Date: March 18, 1997

TENANT

INTEVAC CORPORATION

By: [SIG]

Its: Chief Financial Officer Date: March 19, 1997

EXHIBIT 10.3

[WELLS FARGO BANK LETTERHEAD]

Commercial Banking Group
Santa Clara Valley Region
121 Park Center Plaza
P.O. Box 720010
San Jose, CA 95172

April 30, 1997

Intevac, INC.
3560 Bassett Street
Santa Clara, CA 95054

Dear Sir:

This letter is to confirm that Wells Fargo Bank, National Association ("Bank"), subject to all terms and conditions contained herein, has agreed to make available to Intevac, Inc. ("Borrower") a revolving line of credit under which Bank will make advances to Borrower from time to time up to and including May 1, 1998, not to exceed at any time the maximum principal amount of Ten Million Dollars (\$10,000,000.00) ("Line of Credit"), the proceeds of which shall be used to support Borrower's working capital requirements.

I. CREDIT TERMS:

1. LINE OF CREDIT:

(a) Line of Credit Note. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note substantially in the form of Exhibit A attached hereto ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above.

II. INTEREST/FEES:

1. Interest. The outstanding principal balance of the Line of Credit shall bear interest at the rate of interest set forth in the Line of Credit Note.

2. Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in the Line of Credit Note.

3. Commitment Fee. Borrower shall pay to Bank a non-refundable commitment fee for the Line of Credit equal to \$13,000.00, which fee shall be due and payable in full upon execution of this letter.

III. REPRESENTATIONS AND WARRANTIES:

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this letter and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to this letter.

1. Legal Status. Borrower is a corporation, duly organized and existing and in good standing under the laws of the state of California, and is qualified or licensed to do business in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower.

2. Authorization and Validity. This letter, the Line of Credit Note, and each other document, contract or instrument deemed necessary by Bank to evidence any extension of credit to Borrower pursuant to the terms and conditions hereof, or now or at any time hereafter required by or delivered to Bank in connection with this letter (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

3. No Violation. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of Borrower, or result in a breach of or constitute a default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

4. Litigation. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a material adverse effect on the financial condition or operation of Borrower other than those disclosed by Borrower to Bank in writing prior to the date hereof.

5. Correctness of Financial Statement. The financial statement of Borrower dated December 31, 1996, a true copy of which has been delivered by Borrower to Bank prior to the date hereof, (a) is complete and correct and presents fairly the financial condition of Borrower, (b) discloses all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) has been prepared in accordance with generally accepted accounting principles consistently applied. Since the date of such financial statement there has been no material adverse change in the financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.

6. Income Tax Returns. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

7. No Subordination. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this letter to any other obligation of Borrower.

8. Permits, Franchises. Borrower possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and all rights to trademarks, trade names, patents and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

9. ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower has not violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a "Plan"); no Reportable Event, as defined in ERISA, has occurred and is continuing with respect to any Plan initiated by Borrower;

Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

10. Other Obligations. Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

11. Environmental Matters. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

IV. CONDITIONS:

1. Conditions of Initial Extension of Credit. The obligation of Bank to extend any credit contemplated by this letter is subject to fulfillment to Bank's satisfaction of all of the following conditions:

- (a) Documentation. Bank shall have received each of the Loan Documents, duly executed and in form and substance satisfactory to Bank.
- (b) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower.

2. Conditions of Each Extension of Credit. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this letter and on the date of each extension of credit by Bank pursuant hereto, with the same effect as though such representations and warranties had been made on and as of each such date, and on each such date, no default hereunder, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such a default, shall have occurred and be continuing or shall exist.

(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

V. COVENANTS:

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, unless Bank otherwise consents in writing:

1. Punctual Payment. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein.

2. Accounting Records. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and inspect the properties of Borrower.

3. Financial Statements. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 120 days after and as of the end of each fiscal year, an unqualified audited financial statement of Borrower, prepared by an independent certified public accountant

acceptable to Bank, to include balance sheet and income statement;

(b) not later than 60 days after and as of the end of each fiscal quarter, a financial statement of Borrower, prepared by Borrower, to include balance sheet and income statement;

(c) contemporaneously with each annual and each fiscal quarter financial statements of Borrower required hereby, a certificate of the chief executive officer or chief financial officer of Borrower that said financial statements are accurate and that there exists no default hereunder nor any condition, act or event which with the giving of notice or the passage of time or both would constitute such a default;

(d) from time to time such other information as Bank may reasonably request.

4. Compliance. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; and comply with the provisions of all documents pursuant to which Borrower is organized and/or which govern Borrower's continued existence and with the requirements of all laws, rules, regulations and orders of a governmental agency applicable to Borrower and/or its business.

5. Insurance. Maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of Borrower, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Bank, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect.

6. Facilities. Keep all properties useful or necessary to Borrower's business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

7. Taxes and Other Liabilities. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except (a) such as Borrower may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for

eventual payment thereof in the event that Borrower is obligated to make such payment.

8. FINANCIAL CONDITION. Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) Tangible Net Worth not at any time less than \$75,000,000.00, plus one hundred percent (100%) of new equity and seventy percent (70%) of net profit, with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets.

(b) Total Liabilities divided by Tangible Net Worth not at any time greater than .70 to 1.0, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities less subordinated debt, and with "Tangible Net Worth" as defined above.

(c) Quick Ratio not at any time less than 1.35 to 1.0, with "Quick Ratio" defined as the aggregate of unrestricted cash, unrestricted marketable securities and receivables convertible into cash divided by total current liabilities.

(d) Maintain annual profitability and no more than one quarter of loss in any consecutive four quarter period.

9. CAPITAL EXPENDITURES. Not make any additional investment in fixed assets in any fiscal year in excess of an aggregate of \$10,000,000.00 without prior written consent of Bank.

10. OTHER INDEBTEDNESS. Not create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, and (b) any other liabilities of Borrower existing as of, and disclosed to Bank prior to, the date hereof.

11. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Not merge into or consolidate with any other entity except in connection with a Permitted Acquisition, as hereinafter defined, and only if Borrower is the surviving entity and remains in compliance with all provisions of this Agreement; nor make any substantial change in the nature of Borrower's business as conducted as of the date hereof, nor acquire all or substantially all of the assets of any

other entity except in a Permitted Acquisition; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except in the ordinary course of its business. Permitted Acquisition means the acquisition by Borrower of (i) all or substantially all of the assets, or (ii) a controlling interest in the stock of any entity, in exchange for consideration (other than Borrower's equity securities) valued at less than \$15,000,000.00, in the aggregate for all such acquisitions in each fiscal year.

12. Loans, Advances, Investments. Not make any loans or advances to or investments in any person or entity, except any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof and additional investments, pursuant to Permitted Acquisitions.

13. Dividends, Distributions. Not declare or pay any dividend or distribution either in cash, stock or any other property on Borrower's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's stock now or hereafter outstanding.

14. Pledge of Assets. Not mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except any of the foregoing in favor of Bank or which is existing as of, and disclosed to Bank in writing prior to, the date hereof.

VI. DEFAULT, REMEDIES:

1. Default, Remedies. Upon the violation of any term or condition of any of the Loan Documents, or upon the occurrence of any default or defined event of default under any of the Loan Documents: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are expressly waived by Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit extended by Bank to Borrower under any of the Loan Documents and to exercise any or all of the rights of a beneficiary or secured party pursuant to the applicable law. All rights, powers and remedies of Bank may be exercised at any time

by Bank and from time to time after the occurrence of any such breach or default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

2. No Waiver. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

VII. MISCELLANEOUS:

1. Notices. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this letter must be in writing delivered to each party at its address first set forth above, or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

2. Costs, Expenses and Attorneys' Fees. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the negotiation and preparation of this letter and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any

other person) relating to any Borrower or any other person or entity.

3. Successors, Assignment. This letter shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interest hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith Bank may disclose all documents and information which Bank now has or hereafter may acquire relating to any credit extended by Bank to Borrower, Borrower or its business, or any collateral required hereunder.

4. Entire Agreement; Amendment. This letter and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to any extension of credit by Bank subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This letter may be amended or modified only in writing signed by each party hereto.

5. No Third Party Beneficiaries. This letter is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this letter or any other of the Loan Documents to which it is not a party.

6. Severability of Provisions. If any provision of this letter shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this letter.

7. Governing Law. This letter shall be governed by and construed in accordance with the laws of the State of California.

8. Arbitration.

(a) Arbitration. Upon the demand of any party, any Dispute shall be resolved by binding arbitration (except as set forth in (e) below) in accordance with the terms of this letter. A "Dispute" shall mean any action, dispute, claim or controversy of

any kind, whether in contract or tort, statutory or common law, legal or equitable, now existing or hereafter arising under or in connection with, or in any way pertaining to, any of the Loan Documents, or any past, present or future extensions of credit and other activities, transactions or obligations of any kind related directly or indirectly to any of the Loan Documents, including without limitation, any of the foregoing arising in connection with the exercise of any self-help, ancillary or other remedies pursuant to any of the Loan Documents. Any party may by summary proceedings bring an action in court to compel arbitration of a Dispute. Any party who fails or refuses to submit to arbitration following a lawful demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute.

(b) **Governing Rules.** Arbitration proceedings shall be administered by the American Arbitration Association ("AAA") or such other administrator as the parties shall mutually agree upon in accordance with the AAA Commercial Arbitration Rules. All Disputes submitted to arbitration shall be resolved in accordance with the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the Loan Documents. The arbitration shall be conducted at a location in California selected by the AAA or other administrator. If there is any inconsistency between the terms hereof and any such rules, the terms and procedures set forth herein shall control. All statutes of limitation applicable to any Dispute shall apply to any arbitration proceeding. All discovery activities shall be expressly limited to matters directly relevant to the Dispute being arbitrated. Judgment upon any award rendered in an arbitration may be entered in any court having jurisdiction; provided however, that nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. Section 91 or any similar applicable state law.

(c) **No Waiver; Provisional Remedies, Self-Help and Foreclosure.** No provision hereof shall limit the right of any party to exercise self-help remedies such as setoff, foreclosure against or sale of any real or personal property collateral or security, or to obtain provisional or ancillary remedies, including without limitation injunctive relief, sequestration, attachment, garnishment or the appointment of a receiver, from a

court of competent jurisdiction before, after or during the pendency of any arbitration or other proceeding. The exercise of any such remedy shall not waive the right of any party to compel arbitration or reference hereunder.

(d) Arbitrator Qualifications and Powers; Awards. Arbitrators must be active members of the California State Bar or retired judges of the state or federal judiciary of California, with expertise in the substantive law applicable to the subject matter of the Dispute. Arbitrators are empowered to resolve Disputes by summary rulings in response to motions filed prior to the final arbitration hearing. Arbitrators (i) shall resolve all Disputes in accordance with the substantive law of the state of California, (ii) may grant any remedy or relief that a court of the state of California could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award, and (iii) shall have the power to award recovery of all costs and fees, to impose sanctions and to take such other actions as they deem necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Any Dispute in which the amount in controversy is \$5,000,000 or less shall be decided by a single arbitrator who shall not render an award of greater than \$5,000,000 (including damages, costs, fees and expenses). By submission to a single arbitrator, each party expressly waives any right or claim to recover more than \$5,000,000. Any Dispute in which the amount in controversy exceeds \$5,000,000 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations.

(e) Judicial Review. Notwithstanding anything herein to the contrary, in any arbitration in which the amount in controversy exceeds \$25,000,000, the arbitrators shall be required to make specific, written findings of fact and conclusions of law. In such arbitrations (i) the arbitrators shall not have the power to make any award which is not supported by substantial evidence or which is based on legal error, (ii) an award shall not be binding upon the parties unless the findings of fact are supported by substantial evidence and the conclusions of law are not erroneous under the substantive law of the state of California, and (iii) the parties shall have in addition to the grounds referred to in the Federal Arbitration Act for vacating, modifying or correcting an award the right to judicial

review of (A) whether the findings of fact rendered by the arbitrators are supported by substantial evidence, and (B) whether the conclusions of law are erroneous under the substantive law of the state of California. Judgment confirming an award in such a proceeding may be entered only if a court determines the award is supported by substantial evidence and not based on legal error under the substantive law of the state of California.

(f) Real Property Collateral; Judicial Reference. Notwithstanding anything herein to the contrary, no Dispute shall be submitted to arbitration if the Dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such Dispute is not submitted to arbitration, the Dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(g) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the Dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business, by applicable law or regulation, or to the extent necessary to exercise any judicial review rights set forth herein. If more than one agreement for arbitration by or between the parties potentially applies to a Dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the Dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

Intevac, Inc.
April 30, 1997

Page 14

Your acknowledgment of this letter shall constitute acceptance of the foregoing terms and conditions. Bank's commitment to extend any credit to Borrower pursuant to the terms of this letter shall terminate on May 2, 1997, unless this letter is acknowledged by Borrower and returned to Bank on or before that date.

The Borrower's indebtedness under this Agreement is hereby deemed to constitute Designated Senior Debt for all purposes with respect to the Indenture dated as of February 15, 1997 between Intevac, Inc. and State Street Bank and Trust Company of California, N.A., as amended from time to time.

Sincerely,

**WELLS FARGO BANK,
NATIONAL ASSOCIATION**

By: /s/ ROSA S. APPLE for

John Adams
Vice President

Acknowledged and accepted as of 4-30-97:

INTEVAC, INC.

By: /s/ CHARLES EDDY

Charles Eddy
Chief Financial Officer

WELLS FARGO BANK, N.A.

ACCOUNT OF:

Intevac, Inc.	Santa Clara Valley #2690
3560 Bassett Street	office
Santa Clara, CA 95054	Commercial Banking
	Department
	121 Park Center Plaza
	San Jose, CA 95115
	Address
	April 30, 1997
	Date

#440-178-8691

Loan Fee for the \$10,000,000.00	\$13,000.00
Line of Credit	=====

Check is attached for payment in full of the above amount.

Wells Fargo Bank is authorized to charge account _____ for the above amount.

WELLS FARGO BANK CERTIFICATE OF INCUMBENCY

TO: WELLS FARGO BANK, NATIONAL ASSOCIATION

The undersigned, Charles B. Eddy II, Secretary of INTEVAC, INC., a corporation created and existing under the laws of the state of CALIFORNIA, hereby certifies to Wells Fargo Bank, National Association ("Bank") that the following named persons are those duly elected officers of this corporation specified in the Corporate Resolution attached hereto and that the signatures opposite their names are their true signatures:

Title -----	Name -----	Signature -----
Chief Financial Officer, Secretary, Treasurer	Charles Eddy	[SIG] -----
Vice President, Finance	Charles Eddy	[SIG] -----
President, Chairman, CEO	Norman H. Pond	[SIG] -----

The undersigned further certifies that should any of the above-named officers change, or should the signature requirements of said Corporate Resolution change, this corporation shall provide Bank immediately with a new Certificate of Incumbency. Bank is hereby authorized to rely on this Certificate until a new Certificate certified by the Secretary of this corporation is received by Bank.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the corporate seal of said corporation as of 4-29-97.

[SIG] CHARLES EDDY

[SEAL]

Secretary

TO: WELLS FARGO BANK, NATIONAL ASSOCIATION

RESOLVED: That this corporation, INTEVAC, INC., proposes to obtain credit from time to time, or has obtained credit from Wells Fargo Bank, National Association ("Bank").

BE IT FURTHER RESOLVED, that any one of the following officers:

Charles Eddy, CFO

together with any one of the following officers:

Norman Pond, President

of this corporation be and they are hereby authorized and empowered for and on behalf of and in the name of this corporation and as its corporate act and deed:

(a) To borrow money from Bank and to assume any liabilities of any other person or entity to Bank, in such form and on such terms and conditions as shall be agreed upon by those authorized above and Bank, and to sign and deliver such promissory notes and other evidences of indebtedness for money borrowed or advanced and/or for indebtedness assumed as bank shall require; such promissory notes or other evidences of indebtedness may provide that advances be requested by telephone communication and by any officer, employee or agent of this corporation so long as the advances are deposited into any deposit account of this corporation with bank; this corporation shall be bound to Bank by, and Bank may rely upon, any communication or act, including telephone communications, purporting to be done by any officer, employee or agent of this corporation provided that bank believes, in good faith, that the same is done by such person.

(b) To contract for the issuance by Bank of letters of credit, to discount with Bank notes, acceptances and evidences of indebtedness payable to or due this corporation, to endorse the same and execute such contracts and instruments for repayment thereof to Bank as Bank shall require, and to enter into foreign exchange transactions with or through Bank.

(c) To mortgage, encumber, pledge, convey, grant, assign or otherwise transfer all or any part of this corporation's real or personal property for the purpose of securing the payment of any of the promissory notes, contracts, instruments and other evidences of indebtedness authorized hereby, and to execute and deliver to Bank such deeds of trust, mortgages, pledge agreements and/or other security agreements as Bank shall require.

(d) To perform all acts and to execute and deliver all documents described above and all other contracts and instruments which Bank deems necessary or convenient to accomplish the purposes of this resolution and/or to perfect or continue the rights, remedies and security interests to be given to Bank hereunder, including without limitation, any modifications, renewals and/or extensions of any of this corporation's obligations to Bank, however evidenced; provided that the aggregate principal amount of all sums borrowed and credits established pursuant to this resolution shall not at any time exceed the sum of \$10,000,000.00 outstanding and unpaid.

Loans made pursuant to a special resolution and loans made by offices of Bank other than the office to which this resolution is delivered shall be in addition to foregoing limitation.

BE IT FURTHER RESOLVED, that the authority hereby conferred is in addition to that conferred by any other resolution heretofore or hereafter delivered to Bank and shall continue in full force and effect until Bank shall have received notice in writing, certified by the Secretary of this corporation, of the revocation hereof by a resolution duly adopted by the Board of Directors of this corporation. Any such revocation shall be effective only as to credit which is extended or committed by Bank, or actions which are taken by this corporation pursuant to the resolutions contained herein, subsequent to Bank's receipt of such notice. The authority hereby conferred shall be deemed

retroactive, and any and all acts authorized herein which were performed prior to the passage of this resolution are hereby approved and ratified.

CERTIFICATION

I, Charles B. Eddy, III, Secretary of INTEVAC, INC., a corporation created and existing under the laws of the state of CALIFORNIA, do hereby certify and declare that the foregoing is a full, true and correct copy of the resolutions duly passed and adopted by the Board of Directors of said corporation, by written consent of all Directors of said corporation or at a meeting of said Board duly and regularly called, noticed and held on April 17, 1997, at which meeting a quorum of the Board of Directors was present and voted in favor of said resolutions; that said resolutions are now in full force and effect; that there is no provision in the Articles of Incorporation or Bylaws of said corporation, or any shareholder agreement, limiting the power of the Board of Directors of said corporation to pass the foregoing resolutions and that such resolutions are in conformity with the provisions of such Articles of Incorporation and Bylaws; and that no approval by the shareholders of, or of the outstanding shares of, said corporation is required with respect to the matters which are the subject of the foregoing resolutions.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the corporate seal of said corporation as of April 29, 1997.

CHARLES B. EDDY
Secretary

(SEAL)

CORPORATE RESOLUTION: BORROWING (08/96), Page 2

EXHIBIT A

WELLS FARGO BANK

REVOLVING LINE OF CREDIT NOTE

\$10,000,000.00

San Jose, California
April 30, 1997

FOR VALUE RECEIVED, the undersigned INTEVAC, INC. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at Santa Clara Valley RCBO, 121 Park Center Plaza 3rd Flr, San Jose, CA 95115, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of \$10,000,000.00, or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

- (a) "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in California are authorized or required by law to close.
- (b) "Fixed Rate Term" means a period commencing on a Business Day and continuing for 1, 2 or 3 months, as designated by Borrower, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to LIBOR; provided however, that no Fixed Rate Term may be selected for a principal amount less than \$500,000.00; and provided further, that no Fixed Rate Term shall extend beyond the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, the such Fixed Rate Term shall be extended to the next succeeding Business Day.
- (c) "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1%) determined by dividing Base LIBOR by a percentage equal to 100% less any LIBOR Reserve Percentage.
- (i) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.
- (ii) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.
- (d) "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate.

INTEREST:

- (a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (i) at a fluctuating rate per annum equal to the Prime Rate in effect from time to time, or (ii) at a fixed rate per annum determined by Bank to be 1.75000% above LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank. With respect to each LIBOR selection option selected hereunder, Bank is hereby authorized to note the date, principal amount, interest rate and Fixed Rate Term applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.
- (b) Selection of Interest Rate Options. At any time any portion of this Note bears interest determined in relation to LIBOR, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Prime Rate or to LIBOR for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Prime Rate, Borrower may convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a Fixed Rate Term designated by Borrower. At such time as Borrower requests an advance hereunder or wishes to select a LIBOR option for all or portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying: (i) the interest rate option selected by Borrower; (ii) the

principal amount subject thereto; and (iii) for each LIBOR selection, the length of the applicable Fixed Rate Term. Any such notice may be given by telephone so long as, with respect to each LIBOR selection, (A) Bank receives written confirmation from Borrower not later than 3 Business Days after such telephone notice is given, and (B) such notice is given to Bank prior to 10:00 a.m., California time, on the first day of the Fixed Rate Term. For each LIBOR option requested hereunder, Bank will quote the applicable fixed rate to Borrower at approximately 10:00 a.m., California time, on the first day of the Fixed Rate Term. If Borrower does not immediately accept the rate quoted by Bank, any subsequent acceptance by Borrower shall be subject to a redetermination by Bank of the applicable fixed rate; provided however, that if Borrower fails to accept any such rate by 11:00 a.m., California time, on the Business Day such quotation is given, then the quoted rate shall expire and Bank shall have no obligation to permit a LIBOR option to be selected on such day. If no specific designation of interest is made at the time any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have made a Prime Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

(c) Additional LIBOR Provisions.

(i) If Bank at any time shall determine that for any reason adequate and reasonable means do not exist for ascertaining LIBOR, then Bank shall promptly give notice thereof to Borrower. If such notice is given and until such notice has been withdrawn by Bank, then (A) no new LIBOR option may be selected by Borrower, and (B) any portion of the outstanding principal balance hereof which bears interest determined in relation to LIBOR, subsequent to the end of the Fixed Rate Term applicable thereto, shall bear interest determined in relation to the Prime Rate.

(ii) If any law, treaty, rule, regulation or determination of a court or governmental authority or any change therein or in the interpretation or application thereof (each a "Change in Law") shall make it unlawful for Bank (A) to make LIBOR options available hereunder, or (B) to maintain interest rates based on LIBOR, then in the former event, any obligation of Bank to make available such unlawful LIBOR options shall immediately be cancelled, and in the latter event, any such unlawful LIBOR-based interest rates then outstanding shall be converted, at Bank's option, so that interest on the portion of the outstanding principal balance subject thereto is determined in relation to the Prime Rate; provided however, that if any such Change in Law shall permit any LIBOR-based interest rates to remain in effect until the expiration of the Fixed Rate Term applicable thereto, then such permitted LIBOR-based interest rates shall continue in effect until the expiration of such Fixed Rate Term. Upon the occurrence of any of the foregoing events, Borrower shall pay to Bank immediately upon demand such amounts as may be necessary to compensate Bank for any fines, fees, charges, penalties or other costs incurred or payable by Bank as a result thereof and which are attributable to any LIBOR options made available to Borrower hereunder, and any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(iii) If any Change in Law or compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority shall:

(A) subject Bank to any tax, duty or other charge with respect to any LIBOR options, or change the basis of taxation of payments to Bank of principal, interest, fees or any other amount payable hereunder (except for changes in the rate of tax on the overall net income of Bank); or

(B) impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances or loans by, or any other acquisition of funds by any office of Bank; or

(C) impose on Bank any other condition;

and the result of any of the foregoing is to increase the cost to Bank of making, renewing or maintaining any LIBOR options hereunder and/or to reduce any amount receivable by Bank in connection therewith, then in any such case, Borrower shall pay to Bank immediately upon demand such amounts as may be necessary to compensate Bank for additional costs incurred by Bank and/or reductions in amounts received by Bank which are attributable to such LIBOR options. In determining which costs incurred by Bank and/or reductions in amounts received by Bank are attributable to any LIBOR options made available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(d) Payment of Interest. Interest accrued on this Note shall be payable on the 1st day of each month, commencing May 1, 1997.

(e) Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to 4% above the rate of interest from time to time applicable to this Note.

BORROWING AND REPAYMENT:

(a) Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for any Borrower, which balance may be endorsed hereon

from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on May 1, 1998.

(b) Advances. Advances hereunder, to the total amount of the principal sum available hereunder, may be made by the holder at the oral or written request of (i) Ruth Updegruff, Charley Eddly, Kevin Soulsby, Norman Pond, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (ii) any person, with respect to advances deposited to the credit of any account of any Borrower with the holder, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of each Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by any Borrower.

(c) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Prime Rate, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first.

PREPAYMENT:

(a) Prime Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Prime Rate at any time, in any amount and without penalty.

(b) LIBOR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to LIBOR at any time and in the minimum amount of \$10,000.00; provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise. Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

(i) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.

(ii) Subtract from the amount determined in (i) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.

(iii) If the result obtained in (ii) for any month is greater than zero, discount that difference by LIBOR used in (ii) above.

Each Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Each Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum 2.000% above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed). Each change in the rate of interest on any such past due prepayment fee shall become effective on the date each Prime Rate change is announced within Bank.

EVENTS OF DEFAULT:

The occurrence of any of the following shall constitute an "Event of Default" under this Note:

(a) The failure to pay any principal, interest, fees or other charges when due hereunder or under any contract, instrument or document executed in connection with this Note.

(b) The filing of a petition by or against any Borrower, any guarantor of this Note or any general partner or joint venturer in any Borrower which is a partnership or a joint venture (with each such guarantor, general partner and/or joint venturer referred to herein as a "Third Party Obligor") under any provisions of the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time, or under any similar or other law relating to bankruptcy, insolvency, reorganization or other relief for debtors; the appointment of a receiver, trustee, custodian or liquidator of or for any part of the assets or property of any Borrower or Third Party Obligor; any Borrower or Third Party Obligor becomes insolvent, makes a general assignment for the benefit of creditors or is generally not paying its debts as they become due; or any attachment or like levy on any property of any Borrower or Third Party Obligor.

(c) The death or incapacity of any individual Borrower or Third Party Obligor, or the dissolution or liquidation of any Borrower or Third Party Obligor which is a corporation, partnership, joint venture or other type of entity.

(d) Any default in the payment or performance of any obligation, or any defined event of default, under any provisions of any contract, instrument or document pursuant to which any Borrower or Third Party Obligor has incurred any obligation for borrowed money, any purchase obligation, or any other liability of any kind to any person or entity, including the holder.

(e) Any financial statement provided by any Borrower or Third Party Obligor to Bank proves to be incorrect, false or misleading in any material respect.

(f) Any sale or transfer of all or a substantial or material part of the assets of any Borrower or Third Party Obligor other than in the ordinary course of its business.

(g) Any violation or breach of any provision of, or any defined event of default under, any addendum to this Note or any loan agreement, guaranty, security agreement, deed of trust, mortgage or other document executed in connection with or securing this Note.

MISCELLANEOUS:

(a) Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by each Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Each Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

(b) Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

(c) Governing Law. This Note shall be governed by and construed in accordance with the laws of the state of California.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

INTEVAC, INC.

By: /s/ CHARLES EDDY

CHARLES EDDY
CHIEF FINANCIAL OFFICER

EXHIBIT 11.1

INTEVAC, INC.

**COMPUTATION OF NET INCOME PER SHARE
(UNAUDITED)**

	THREE MONTHS ENDED	
	MARCH 29, 1997	MARCH 30, 1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
PRIMARY EARNINGS PER SHARE:		
Shares used in Calculation of Net Income Per Share:		
Average common shares outstanding.....	12,505	12,249
Net effect of dilutive stock options.....	609	382
	-----	-----
Total equivalent common shares.....	13,114	12,631
	=====	=====
Net income.....	\$ 3,416	\$ 1,897
	=====	=====
Net income per share.....	\$ 0.26	\$ 0.15
	=====	=====
FULLY DILUTED EARNINGS PER SHARE(1):		
Shares used in Calculation of Net Income Per Share:		
Average common shares outstanding.....	12,505	12,249
Net effect of dilutive stock options.....	609	382
Conversion of convertible debt.....	1,014	--
	-----	-----
Total equivalent common shares.....	14,128	12,631
	=====	=====
Net income.....	\$ 3,416	\$ 1,897
Add interest expense, net of tax effect on convertible debt.....	198	--
	-----	-----
Adjusted net income.....	\$ 3,614	\$ 1,897
	=====	=====
Net income per share.....	\$ 0.26	\$ 0.15
	=====	=====

(1) Fully diluted earnings per share are not presented on the face of the Condensed Consolidated Statements of Income since they are not materially

different from primary earnings per share.

ARTICLE 5

This schedule contains summary financial information extracted from (a) the Condensed Consolidated Balance Sheet at March 29, 1997 (unaudited) and the Condensed Consolidated Statement of Income (unaudited) for the three months ended March 29, 1997 and is qualified in its entirety by reference to such (b) financial statements.

MULTIPLIER: 1,000

CURRENCY: U.D. DOLLARS

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	MAR 29 1997
EXCHANGE RATE	1
CASH	4,632
SECURITIES	60,618
RECEIVABLES	13,743
ALLOWANCES	1,256
INVENTORY	28,617
CURRENT ASSETS	109,424
PP&E	14,389
DEPRECIATION	4,428
TOTAL ASSETS	132,958
CURRENT LIABILITIES	36,748
BONDS	58,230
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	17,169
OTHER SE	20,405
TOTAL LIABILITY AND EQUITY	132,958
SALES	31,141
TOTAL REVENUES	31,141
CGS	20,997
TOTAL COSTS	20,997
OTHER EXPENSES	4,923
LOSS PROVISION	237
INTEREST EXPENSE	400
INCOME PRETAX	5,339
INCOME TAX	1,923
INCOME CONTINUING	3,416
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	3,416
EPS PRIMARY	0.26
EPS DILUTED	0.26

End of Filing

Powered By **EDGAR**
Online

© 2005 | EDGAR Online, Inc.