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

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**FORM 10-Q**

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(MARK ONE)

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

For the quarterly period ended March 31, 2018

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

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**INTEVAC, INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

94-3125814  
(IRS Employer  
Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

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

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

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

On May 1, 2018, 22,360,973 shares of the Registrant's Common Stock, \$0.001 par value, were outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## INTEVAC, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2018	December 30, 2017
	(Unaudited)	
	(In thousands, except par value)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,306	\$ 19,941
Short-term investments	19,093	15,698
Trade and other accounts receivable, net of allowances of \$0 at both March 31, 2018 and at December 30, 2017	18,503	20,474
Inventories	35,573	33,792
Prepaid expenses and other current assets	2,306	2,524
Total current assets	91,781	92,429
Property, plant and equipment, net	12,180	12,478
Long-term investments	4,277	6,849
Restricted cash	1,000	1,000
Intangible assets, net of amortization of \$7,038 at March 31, 2018 and \$6,884 at December 30, 2017	1,349	1,503
Deferred income taxes and other long-term assets	783	764
Total assets	<u>\$111,370</u>	<u>\$ 115,023</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,970	\$ 3,949
Accrued payroll and related liabilities	3,605	6,818
Other accrued liabilities	9,845	7,688
Customer advances	11,708	11,026
Total current liabilities	30,128	29,481
Other long-term liabilities	2,724	2,879
Stockholders' equity:		
Common stock, \$0.001 par value	22	22
Additional paid-in capital	180,070	177,521
Treasury stock, 4,845 shares at both March 31, 2018 and December 30, 2017	(28,489)	(28,489)
Accumulated other comprehensive income	566	490
Accumulated deficit	(73,651)	(66,881)
Total stockholders' equity	78,518	82,663
Total liabilities and stockholders' equity	<u>\$111,370</u>	<u>\$ 115,023</u>

Note: Amounts as of December 30, 2017 are derived from the December 30, 2017 audited consolidated financial statements.

See accompanying notes.

## INTEVAC, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended	
	March 31, 2018	April 1, 2017
	(Unaudited)	
	(In thousands, except per share amounts)	
Net revenues:		
Systems and components	\$ 15,472	\$ 28,423
Technology development	2,502	1,965
Total net revenues	17,974	30,388
Cost of net revenues:		
Systems and components	10,728	15,674
Technology development	2,371	1,667
Total cost of net revenues	13,099	17,341
Gross profit	4,875	13,047
Operating expenses:		
Research and development	4,167	4,682
Selling, general and administrative	5,829	6,274
Total operating expenses	9,996	10,956
Income (loss) from operations	(5,121)	2,091
Interest income and other income (expense), net	145	110
Income (loss) before income taxes	(4,976)	2,201
Provision for income taxes	160	372
Net income (loss)	\$ (5,136)	\$ 1,829
Net income (loss) per share:		
Basic	\$ (0.23)	\$ 0.09
Diluted	\$ (0.23)	\$ 0.08
Weighted average common shares outstanding:		
Basic	22,107	21,216
Diluted	22,107	22,790

See accompanying notes.

INTEVAC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	<u>Three months ended</u>	
	<u>March 31,</u>	<u>April 1,</u>
	<u>2018</u>	<u>2017</u>
	<u>(Unaudited)</u>	
	<u>(In thousands)</u>	
Net income (loss)	<u>\$ (5,136)</u>	<u>\$1,829</u>
Other comprehensive income, before tax:		
Change in unrealized net gain (loss) on available-for-sale investments	(28)	4
Foreign currency translation gains	104	34
Other comprehensive income, before tax	<u>76</u>	<u>38</u>
Income tax provision related to items in other comprehensive income	<u>—</u>	<u>—</u>
Other comprehensive income, net of tax	<u>76</u>	<u>38</u>
Comprehensive income (loss)	<u>\$ (5,060)</u>	<u>\$1,867</u>

See accompanying notes.

## INTEVAC, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	March 31, 2018	April 1, 2017
	(Unaudited)	
	(In thousands)	
<b>Operating activities</b>		
Net income (loss)	\$ (5,136)	\$ 1,829
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,043	1,015
Net amortization (accretion) of investment premiums and discounts	(18)	28
Equity-based compensation	817	1,077
Change in the fair value of acquisition-related contingent consideration	(1)	80
Changes in operating assets and liabilities	(752)	(6,010)
Total adjustments	1,089	(3,810)
Net cash used in operating activities	(4,047)	(1,981)
<b>Investing activities</b>		
Purchases of investments	(10,161)	(3,944)
Proceeds from sales and maturities of investments	9,328	5,850
Purchases of leasehold improvements and equipment	(592)	(1,448)
Net cash provided by (used in) investing activities	(1,425)	458
<b>Financing activities</b>		
Proceeds from issuance of common stock	2,065	1,083
Taxes paid related to net share settlement	(333)	(1,210)
Payment of acquisition-related contingent consideration	—	(2)
Net cash provided by (used in) financing activities	1,732	(129)
Effect of exchange rate changes on cash and cash equivalents	105	34
Net decrease in cash, cash equivalents and restricted cash	(3,635)	(1,618)
Cash, cash equivalents and restricted cash at beginning of period	20,941	28,645
Cash, cash equivalents and restricted cash at end of period	\$ 17,306	\$ 27,027

See accompanying notes.

INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**1. Description of Business and Basis of Presentation**

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

In the opinion of management, except for the changes below, the unaudited interim condensed consolidated financial statements of Intevac included herein have been prepared on a basis consistent with the December 30, 2017 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. The Company adopted Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customers, with a date of the initial application of December 31, 2017. As a result, the Company has changed its accounting policy for revenue recognition as detailed below. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Intevac’s Annual Report on Form 10-K for the fiscal year ended December 30, 2017 (“2017 Form 10-K”). Intevac’s results of operations for the three months ended March 31, 2018 are not necessarily indicative of future operating results.

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

**2. Recent Accounting Pronouncements**

*Recently Issued Accounting Standard Not Yet Adopted*

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for “stranded tax effects” resulting from the Tax Cuts and Jobs Act (“Tax Reform”). The guidance states that because the adjustment of deferred taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate is required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income (“stranded tax effects”) do not reflect the appropriate tax rate. As stated within the guidance, the amendments in this update should be applied retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Reform is recognized. This update becomes effective in the first quarter of fiscal 2019. Early adoption is permitted. At this time, the Company is in the process of evaluating the impact of the provisions of ASU 2018-02 on its consolidated financial statements.



INTEVAC, INC.

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

*Adoption of New Accounting Standard*

ASU 2014-09, Revenue—Revenue from Contracts with Customers. On December 31, 2017, we adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments (“new revenue standard”) to all contracts using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of the accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of the new standard to be immaterial to our net income on an ongoing basis.

In our TFE segment, a majority of our equipment sales revenue continues to be recognized when products are shipped from our manufacturing facilities. Revenue recognition for our equipment sales arrangements, which includes systems, technology upgrades, service and spare parts, remains materially consistent with our historical practice.

Under the new revenue standard, in our TFE segment, we recognize revenue for equipment sales at a point in time following the transfer of control of such products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contracts. Our contracts with customers may include multiple performance obligations. For such arrangements, under the new revenue standard we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers or using expected cost plus margin. Under the new revenue standard, the expected costs associated with our base warranties continue to be recognized as expense when the equipment is sold.

Under the new revenue standard, in our Photonics segment, we recognize revenue for cost plus fixed fee (“CPFF”) and firm fixed priced (“FFP”) government contracts over time under the cost-to-cost method for the majority of our government contracts, which is consistent with our historical revenue recognition model. Revenue on the majority of our government contracts will continue to be recognized over time because of the continuous transfer of control to the customer. For U.S. government contracts, this continuous transfer of control to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. Similarly, for non-U.S. government contracts, the customer typically controls the work in process as evidenced either by contractual termination clauses or by our rights to payment for work performed to date to deliver products or services that do not have an alternative use to the Company. Under the new standard, the cost-to-cost measure of progress continues to best depict the transfer of control of assets to the customer, which occurs as we incur costs.

The majority of our contracts in our Photonics segment have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. Some of our contracts have multiple performance obligations, most commonly due to the contract covering multiple phases of the product lifecycle (development and production). For contracts with multiple performance obligations, we allocate the contract’s transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we forecast our expected costs of satisfying a performance obligation and then add an appropriate margin for that distinct good or service.

Under the new revenue standard, in our Photonics segment, we recognize revenue for homogenous manufactured military products sold to the U.S. government and its contractors over time under the units-of-delivery method because of the continuous transfer of control to the customer. Intevac believes that the units-of-delivery method to be an appropriate measure for measuring progress for the manufactured units as an equal amount of value is individually transferred to the customer upon delivery. The Company previously recognized revenue for substantially all manufactured military products sold to the U.S. government and its contractors when the customers took delivery of the products, which was generally upon shipment.

## INTEVAC, INC.

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

The nature of our contracts in our Photonics segment gives rise to several types of variable consideration including tiered pricing. Allocation of contract revenues among Photonics military products, and the timing of the recognition of those revenues, is impacted by agreements with tiered pricing or variable rate structures. We include variable consideration in the estimated transaction price when there is a basis to reasonably estimate the amount of the consideration. These estimates are based on historical experience, anticipated performance and our best judgment at the time. Because of our certainty in estimating these amounts, they are included in the transaction price of our contracts and the associated remaining performance obligations.

Accounting for CPFF and FFP contracts and programs involves the use of various techniques to estimate total contract revenue and costs. For these contracts, we estimate the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognize that profit over the life of the contract. Contract estimates are based on various assumptions to project the outcome of future events. These assumptions include the complexity of the work to be performed; the cost and availability of materials; the performance of subcontractors; and the availability and timing of funding from the customer.

As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our contract-related estimates regularly. We recognize adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date on a contract is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize the total loss in the quarter it is identified.

We recorded a cumulative effect adjustment to the beginning balance of our consolidated December 31, 2017 balance sheet for the impact of the allocation and the timing of the recognition of revenues for an open Photonics military product agreement with a tiered pricing structure. This change will also result in increased revenue in subsequent periods from this agreement. The cumulative effect of the changes made to our consolidated December 31, 2017 balance sheet for the adoption of the new revenue standard were as follows (in thousands):

	Balance at December 30, 2017	Adjustments Due to ASC 606	Balance at December 31, 2017
Other accrued liabilities	\$ 7,688	\$ 1,634	\$ 9,322
Accumulated deficit	\$ (66,881)	\$ (1,634)	\$ (68,515)

INTEVAC, INC.

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

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our consolidated statement of operations was as follows (in thousands):

*Consolidated Statement of Operations*

	For the Three Months Ended March 31, 2018		
	As Reported	Balances without ASC 606	Effect of Change
Net revenues:			
Systems and components	\$ 15,472	\$ 15,343	\$ 129
Technology development	2,502	2,502	—
Total net revenues	17,974	17,845	129
Cost of net revenues:			
Systems and components	10,728	10,728	—
Technology development	2,371	2,371	—
Total cost of net revenues	13,099	13,099	—
Gross profit	4,875	4,746	129
Operating expenses:			
Research and development	4,167	4,167	—
Selling, general and administrative	5,829	5,829	—
Total operating expenses	9,996	9,996	—
Loss from operations	(5,121)	(5,250)	129
Interest income and other income (expense), net	145	145	—
Loss before income taxes	(4,976)	(5,105)	129
Provision for income taxes	160	160	—
Net loss	<u>\$ (5,136)</u>	<u>\$ (5,265)</u>	<u>\$ 129</u>

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on select consolidated balance sheet line items was as follows (in thousands):

*Consolidated Balance Sheet*

	As of March 31, 2018		
	As Reported	Balances without ASC 606	Effect of Change
Other accrued liabilities	\$ 9,845	\$ 8,340	\$ 1,505
Total current liabilities	\$ 30,128	\$ 28,623	\$ 1,505
Accumulated deficit	<u>\$(73,651)</u>	<u>\$ (72,146)</u>	<u>\$(1,505)</u>
Total stockholders' equity	<u>\$ 78,518</u>	<u>\$ 80,023</u>	<u>\$(1,505)</u>

**3. Revenue**

The following tables represent a disaggregation of revenue from contracts with customers for the three months ended March 31, 2018 and April 1, 2017 along with the reportable segment for each category. As noted above the prior period amounts have not been adjusted under the modified retrospective method.

INTEVAC, INC.

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

*Major Products and Service Lines*

TFE	Three Months Ended March 31, 2018				Three Months Ended April 1, 2017			
	HDD	DCP	PV	Total	HDD	DCP	PV	Total
Systems, upgrades and spare parts	\$ 10,393	\$ 1	\$ 2	\$10,396	\$7,281	\$ 12,787	\$ —	\$ 20,068
Field service	2,355	—	38	2,393	1,408	—	8	1,416
Total TFE net revenues	\$ 12,748	\$ 1	\$ 40	\$12,789	\$8,689	\$ 12,787	\$ 8	\$ 21,484

Photonics	Three Months Ended	
	March 31, 2018	April 1, 2017
	(In thousands)	
Products:		
Military products	\$ 2,254	\$ 6,705
Commercial products	—	46
Repair and other services	429	188
Total Photonics product net revenues	2,683	6,939
Technology development:		
FFP	692	1,084
CPFF	1,790	881
Time and materials	20	—
Total technology development net revenues	2,502	1,965
Total Photonics net revenues	\$ 5,185	\$ 8,904

*Primary Geographical Markets*

	Three Months Ended March 31, 2018			Three Months Ended April 1, 2017		
	TFE	Photonics	Total	TFE	Photonics	Total
United States	\$ 1,911	\$ 4,762	\$ 6,673	\$ 613	\$ 8,589	\$ 9,202
Asia	10,878	—	10,878	20,871	—	20,871
Europe	—	293	293	—	315	315
Rest of World	—	130	130	—	—	—
Total net revenues	\$12,789	\$ 5,185	\$17,974	\$21,484	\$ 8,904	\$30,388

*Timing of Revenue Recognition*

	Three Months Ended March 31, 2018		
	TFE	Photonics	Total
Products transferred at a point in time	\$12,789	\$ 429	\$13,218
Products and services transferred over time	—	4,756	4,756
	\$12,789	\$ 5,185	\$17,974

INTEVAC, INC.

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

The following table reflects the changes in our contract assets, which we classify as accounts receivable, unbilled or retainage and our contract liabilities which we classify as deferred revenue and customer advances for the three months ended March 31, 2018:

	March 31, 2018	December 30, 2017	Three Months Change
(In thousands)			
<b>TFE:</b>			
Contract assets:			
Accounts receivable, unbilled	\$ 854	\$ 1,368	\$ (514)
Contract liabilities:			
Deferred revenue	\$ 5,319	\$ 5,190	\$ 129
Customer advances	11,092	10,204	888
	<u>\$ 16,411</u>	<u>\$ 15,394</u>	<u>\$ 1,017</u>
<b>Photonics:</b>			
Contract assets:			
Accounts receivable, unbilled	\$ 1,692	\$ 1,346	\$ 346
Retainage	288	281	7
	<u>\$ 1,980</u>	<u>\$ 1,627</u>	<u>\$ 353</u>
Contract liabilities:			
Deferred revenue	\$ 1,602	\$ 97	\$ 1,505
Customer advances	616	822	(206)
	<u>\$ 2,218</u>	<u>\$ 919</u>	<u>\$ 1,299</u>

Accounts receivable, unbilled in our TFE segment represents a contract asset for revenue that has been recognized in advance of billing the customer. For our system and certain upgrade sales, our TFE customers generally pay in three installments, with a portion of the system price billed upon receipt of an order, a portion of the price billed upon shipment, and the balance of the price due upon completion of installation and acceptance of the system at the customer's factory. Accounts receivable, unbilled in our TFE segment generally represents the balance of the system price that is due upon completion of installation and acceptance less the amount that has been deferred as revenue for the performance of the installation tasks. During the three months ended March 31, 2018 contract assets in our TFE segment decreased by \$514,000 primarily due to the final billing on two systems that completed installation and were accepted by the customer, offset by the accrual of revenue for an additional system delivered in the quarter that was pending acceptance as of March 31, 2018.

Customer advances in our TFE segment generally represent amounts billed to the customer prior to transferring goods which represents a contract liability. The Company has elected to use the practical expedient to disregard the effect of the time value of money in a significant financing component when its payment terms are less than one year. These contract advances are liquidated when revenue is recognized. Deferred revenue in our TFE segment generally represents amounts billed to a customer for completed systems at the customer site that are undergoing installation and acceptance testing where transfer of control has not yet occurred as Intevac does not yet have a demonstrated history of meeting the acceptance criteria upon the customer's receipt of product and represents a contract liability. During the three months ended March 31, 2018 we recognized revenue in our TFE segment of \$2.1 million and \$39,000 that was included in customer advances and deferred revenue, respectively, at the beginning of the period.

## INTEVAC, INC.

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

Accounts receivable, unbilled in our Photonics segment represents a contract asset for revenue that has been recognized in advance of billing the customer, which is common for contracts in the defense industry. In our Photonics segment, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., monthly) or upon achievement of contractual milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. Our contracts with the U.S. government may also contain retainage provisions. Retainage represents a contract asset for the portion of the contract price earned by us for work performed, but held for payment by the U.S. government as a form of security until satisfactory completion of the contract. The retainage is billable upon completion of the contract performance and approval of final indirect expense rates by the government. During the three months ended March 31, 2018 contract assets in our TFE segment increased by \$353,000 primarily due to the accrual of revenue for incurred costs under CPFF contracts.

Customer advances in our Photonics segment generally represent deposits from customers upon contract execution and upon achievement of contractual milestones which represents a contract liability. These deposits are liquidated when revenue is recognized. Deferred revenue in our Photonics segment includes \$1.6 million deferred for the impact of the allocation and the timing of the recognition of revenues for a military product agreement with a tiered pricing structure. Deferred revenue in our Photonics segment also includes incurred costs under CPFF contracts pending approval of final indirect expense rates by the government and represents a contract liability. During the three months ended March 31, 2018 we recognized revenue in our Photonics segment of \$206,000 and \$129,000 that was included in customer advances and deferred revenue, respectively, at the beginning of the period.

On March 31, 2018 we had \$66.9 million of remaining performance obligations, which we also refer to as total backlog. Backlog at March 31, 2018 consisted of \$55.6 million of TFE backlog and \$11.3 million of Photonics backlog. We expect to recognize approximately 78% of our remaining performance obligations as revenue in 2018, and the balance in 2019.

#### 4. Inventories

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

	March 31, 2018	December 30, 2017
	(In thousands)	
Raw materials	\$ 15,458	\$ 19,881
Work-in-progress	15,622	9,433
Finished goods	4,493	4,478
	<u>\$ 35,573</u>	<u>\$ 33,792</u>

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

#### 5. Equity-Based Compensation

At March 31, 2018, Intevac had equity-based awards outstanding under the 2012 Equity Incentive Plan and the 2004 Equity Incentive Plan (together, the "Plans") and the 2003 Employee Stock Purchase Plan (the "ESPP"). Intevac's stockholders approved all of these plans. The Plans permit the grant of incentive or non-statutory stock options, restricted stock, stock appreciation rights, restricted stock units ("RSUs") and performance shares.

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

## INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
(Unaudited)**Compensation Expense**

The effect of recording equity-based compensation for the three-month periods ended March 31, 2018 and April 1, 2017 was as follows:

	Three Months Ended	
	March 31, 2018	April 1, 2017
	(In thousands)	
Equity-based compensation by type of award:		
Stock options	\$ 134	\$ 255
RSUs	406	718
Employee stock purchase plan	277	104
Total equity-based compensation	<u>\$ 817</u>	<u>\$ 1,077</u>

Beginning January 1, 2017, Intevac accounts for forfeitures as they occur, rather than by estimating expected forfeitures. The net cumulative effect of this change was recognized as a \$1.1 million increase to the accumulated deficit as of January 1, 2017.

**Stock Options and ESPP**

The fair value of stock options and ESPP awards is estimated at the grant date using the Black-Scholes option valuation model. The determination of fair value of stock options and ESPP awards on the date of grant using an option-pricing model is affected by Intevac's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, and actual employee stock option exercise behavior.

Option activity as of March 31, 2018 and changes during the three months ended March 31, 2018 were as follows:

	Shares	Weighted Average Exercise Price
Options outstanding at December 30, 2017	2,925,861	\$ 7.62
Options granted	106,375	\$ 6.30
Options cancelled and forfeited	(339,812)	\$ 9.84
Options exercised	(244,889)	\$ 4.92
Options outstanding at March 31, 2018	<u>2,447,535</u>	\$ 7.52
Options exercisable at March 31, 2018	1,643,807	\$ 7.08

Intevac issued 216,988 shares under the ESPP during the three months ended March 31, 2018.

INTEVAC, INC.

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

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

	Three Months Ended	
	March 31, 2018	April 1, 2017
<b>Stock Options:</b>		
Weighted-average fair value of grants per share	\$ 2.30	\$ 4.56
Expected volatility	41.97%	41.78%
Risk free interest rate	2.48%	1.38%
Expected term of options (in years)	4.23	2.54
Dividend yield	None	None
<b>Stock Purchase Rights:</b>		
Weighted-average fair value of grants per share	\$ 2.36	\$ 2.74
Expected volatility	46.60%	40.66%
Risk free interest rate	1.82%	1.14%
Expected term of purchase rights (in years)	1.25	0.74
Dividend yield	None	None

The computation of the expected volatility assumptions used in the Black-Scholes calculations for new stock option grants and ESPP purchase rights is based on the historical volatility of Intevac's stock price, measured over a period equal to the expected term of the stock option grant or purchase right. The risk-free interest rate is based on the yield available on U.S. Treasury Strips with an equivalent remaining term. The expected term of employee stock options represents the weighted-average period that the stock options are expected to remain outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the equity-based awards and vesting schedules. The expected term of purchase rights represents the period of time remaining in the current offering period. The dividend yield assumption is based on Intevac's history of not paying dividends and the assumption of not paying dividends in the future.

**RSUs**

A summary of the RSU activity is as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested RSUs at December 30, 2017	769,451	\$ 7.84
Granted	40,188	\$ 6.30
Vested	(140,716)	\$ 9.44
Cancelled and forfeited	(46,945)	\$ 7.77
Non-vested RSUs at March 31, 2018	<u>621,978</u>	\$ 7.39

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



## INTEVAC, INC.

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

In fiscal 2016, the annual bonus for certain participants in the Company's annual incentive plan was settled with RSUs with one-year vesting. The bonus accrual was classified as a liability until the number of shares was determined on the date the awards were granted, at which time the Company classified the awards into equity. In February 2017, the annual 2016 bonus for certain participants was settled with RSUs with one-year vesting. 33 participants were granted stock awards to receive an aggregate of 134,000 shares of common stock with a weighted average grant date fair value of \$9.63 per share. The Company recorded equity-based compensation expense related to the annual incentive plans of \$102,000 for the three months ended April 1, 2017.

**6. Purchased Intangible Assets**

Details of finite-lived intangible assets by segment as of March 31, 2018, are as follows.

	March 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
TFE	\$ 7,172	\$ (5,934)	\$ 1,238
Photonics	1,215	(1,104)	111
	<u>\$ 8,387</u>	<u>\$ (7,038)</u>	<u>\$ 1,349</u>

Total amortization expense of finite-lived intangibles for the three months ended March 31, 2018 was \$154,000.

As of March 31, 2018, future amortization expense is expected to be as follows.

(In thousands)	
2018	\$ 461
2019	615
2020	273
	<u>\$1,349</u>

**7. Acquisition-Related Contingent Consideration**

In connection with the acquisition of Solar Implant Technologies, Inc. ("SIT"), Intevac agreed to pay to the selling shareholders a revenue earnout in cash on Intevac's net revenue from commercial sales of certain products over a specified period, up to an aggregate of \$9.0 million. Intevac estimated the fair value of this contingent consideration on March 31, 2018 based on forecasted revenues reflecting Intevac's own assumptions concerning future revenue from such products.

INTEVAC, INC.

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

The fair value measurement of contingent consideration is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Any change in fair value of the contingent consideration subsequent to the acquisition date is recognized in operating income within the condensed consolidated statements of operations. The following table represents a reconciliation of the change in the fair value measurement of the contingent consideration liability for the three-month periods ended March 31, 2018 and April 1, 2017:

	Three Months Ended	
	March 31, 2018	April 1, 2017
	(In thousands)	
Opening balance	\$ 362	\$ 759
Changes in fair value	(1)	80
Cash payments made	—	(2)
Closing balance	<u>\$ 361</u>	<u>\$ 837</u>

The following table displays the balance sheet classification of the contingent consideration liability account at March 31, 2018 and at December 30, 2017:

	March 31, 2018	December 30, 2017
		(In thousands)
Other accrued liabilities	\$ 221	\$ 103
Other long-term liabilities	140	259
Total acquisition-related contingent consideration	<u>\$ 361</u>	<u>\$ 362</u>

The following table represents the quantitative range of the significant unobservable inputs used in the calculation of fair value of the contingent consideration liability as of March 31, 2018. Significant increases or decreases in any of these inputs in isolation would result in a significantly lower (higher) fair value measurement.

Quantitative Information about Level 3 Fair Value Measurements at March 31, 2018				
Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)	
(In thousands, except for percentages)				
Revenue Eamout	\$ 361	Discounted cash flow	Weighted average cost of capital	12.1%

**8. Warranty**

Intevac provides for the estimated cost of warranty when revenue is recognized. Intevac's warranty is per contract terms and for its HDD manufacturing, DCP manufacturing and solar cell manufacturing the warranty typically ranges between 12 and 24 months from customer acceptance. During this warranty period any defective non-consumable parts are replaced and installed at no charge to the customer. Intevac uses estimated repair or replacement costs along with its historical warranty experience to determine its warranty obligation. The provision for the estimated future costs of warranty is based upon historical cost and product performance experience. Intevac exercises judgment in determining the underlying estimates.

On the condensed consolidated balance sheets, the short-term portion of the warranty provision is included in other accrued liabilities, while the long-term portion is included in other long-term liabilities. The expense associated with product warranties issued or adjusted is included in cost of net revenues on the condensed consolidated statements of operations.

## INTEVAC, INC.

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

The following table displays the activity in the warranty provision account for the three-month periods ended March 31, 2018 and April 1, 2017:

	Three Months Ended	
	March 31, 2018	April 1, 2017
	(In thousands)	
Opening balance	\$ 994	\$ 1,007
Expenditures incurred under warranties	(236)	(142)
Accruals for product warranties issued during the reporting period	104	250
Adjustments to previously existing warranty accruals	4	(9)
Closing balance	<u>\$ 866</u>	<u>\$ 1,106</u>

The following table displays the balance sheet classification of the warranty provision account at March 31, 2018 and at December 30, 2017:

	March 31,	December 30,
	2018	2017
	(In thousands)	
Other accrued liabilities	\$ 646	\$ 757
Other long-term liabilities	220	237
Total warranty provision	<u>\$ 866</u>	<u>\$ 994</u>

**9. Guarantees*****Officer and Director Indemnifications***

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

***Other Indemnifications***

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

## INTEVAC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
(Unaudited)*Letters of Credit*

As of March 31, 2018, we had letters of credit and bank guarantees outstanding totaling \$1.0 million, including the standby letter of credit outstanding under the Santa Clara, California facility lease and various other guarantees with our bank. These letters of credit and bank guarantees are collateralized by \$1.0 million of restricted cash.

**10. Cash, Cash Equivalents and Investments**

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

	March 31, 2018			Fair Value
	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	
(In thousands)				
Cash and cash equivalents:				
Cash	\$ 10,284	\$ —	\$ —	\$ 10,284
Money market funds	5,522	—	—	5,522
Commercial paper	500	—	—	500
Total cash and cash equivalents	\$ 16,306	\$ —	\$ —	\$ 16,306
Short-term investments:				
Certificates of deposit	\$ 4,150	\$ —	\$ 4	\$ 4,146
Commercial paper	3,090	—	—	3,090
Corporate bonds and medium-term notes	5,964	—	25	5,939
Municipal bonds	500	—	2	498
U.S. treasury and agency securities	5,431	—	11	5,420
Total short-term investments	\$ 19,135	\$ —	\$ 42	\$ 19,093
Long-term investments:				
Corporate bonds and medium-term notes	\$ 2,311	\$ —	\$ 17	\$ 2,294
U.S. treasury and agency securities	1,997	—	14	1,983
Total long-term investments	\$ 4,308	\$ —	\$ 31	\$ 4,277
Total cash, cash equivalents, and investments	\$ 39,749	\$ —	\$ 73	\$ 39,676

INTEVAC, INC.

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

	December 30, 2017			Fair Value
	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	
(In thousands)				
Cash and cash equivalents:				
Cash	\$ 13,195	\$ —	\$ —	\$ 13,195
Money market funds	6,746	—	—	6,746
Total cash and cash equivalents	\$ 19,941	\$ —	\$ —	\$ 19,941
Short-term investments:				
Certificates of deposit	\$ 2,500	\$ 1	\$ 1	\$ 2,500
Commercial paper	3,291	—	—	3,291
Corporate bonds and medium-term notes	4,502	—	5	4,497
Municipal bonds	500	—	3	497
U.S. treasury and agency securities	4,917	—	4	4,913
Total short-term investments	\$ 15,710	\$ 1	\$ 13	\$ 15,698
Long-term investments:				
Asset backed securities	\$ 500	\$ —	\$ —	\$ 500
Corporate bonds and medium-term notes	4,384	—	21	4,363
U.S. treasury and agency securities	1,998	—	12	1,986
Total long-term investments	\$ 6,882	\$ —	\$ 33	\$ 6,849
Total cash, cash equivalents, and investments	\$ 42,533	\$ 1	\$ 46	\$ 42,488

The following table provides the fair market value of Intevac's investments with unrealized losses that are not deemed to be other-than temporarily impaired as of March 31, 2018.

	March 31, 2018			
	In Loss Position for Less than 12 Months		In Loss Position for Greater than 12 Months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In thousands)				
Certificates of deposit	\$ 4,146	\$ 4	\$ —	\$ —
Corporate bonds and medium-term notes	6,838	36	999	5
Municipal bonds	—	—	498	2
U.S. treasury and agency securities	6,908	26	—	—
	\$ 17,892	\$ 66	\$ 1,497	\$ 7

INTEVAC, INC.

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

The contractual maturities of available-for-sale securities at March 31, 2018 are presented in the following table.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	\$ 25,157	\$ 25,115
Due after one through two years	4,308	4,277
	<u>\$ 29,465</u>	<u>\$ 29,392</u>

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

The following table represents the fair value hierarchy of Intevac's available-for-sale securities measured at fair value on a recurring basis as of March 31, 2018.

	Fair Value Measurements at March 31, 2018		
	Total	Level 1	Level 2
	(In thousands)		
Recurring fair value measurements:			
Available-for-sale securities			
Money market funds	\$ 5,522	\$ 5,522	\$ —
U.S. treasury and agency securities	7,403	5,381	2,022
Certificates of deposit	4,146	—	4,146
Commercial paper	3,590	—	3,590
Corporate bonds and medium-term notes	8,233	—	8,233
Municipal bonds	498	—	498
Total recurring fair value measurements	<u>\$29,392</u>	<u>\$10,903</u>	<u>\$18,489</u>

**11. Derivative Instruments**

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

INTEVAC, INC.

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

The following table summarizes the Company's outstanding derivative instruments on a gross basis as recorded in its condensed consolidated balance sheets as of March 31, 2018 and December 30, 2017:

<u>Derivative Instrument</u>	<u>Notional Amounts</u>		<u>Derivative Liabilities</u>			
	<u>March 31, 2018</u>	<u>December 30, 2017</u>	<u>March 31, 2018</u>		<u>December 30, 2017</u>	
			<u>Balance Sheet Line</u> (In thousands)	<u>Fair Value</u>	<u>Balance Sheet Line</u>	<u>Fair Value</u>
<u>Undesignated Hedges:</u>						
Forward Foreign Currency Contracts	\$ 873	\$ 1,276	(a)	\$ 5	(a)	\$ 5
Total Hedges	<u>\$ 873</u>	<u>\$ 1,276</u>		<u>\$ 5</u>		<u>\$ 5</u>

(a) Other accrued liabilities

**12. Equity**

***Stock Repurchase Program***

On November 21, 2013, Intevac's Board of Directors approved a stock repurchase program authorizing up to \$30.0 million in repurchases. At March 31, 2018, \$1.5 million remains available for future stock repurchases under the repurchase program. Intevac did not make any stock repurchases during the three months ended March 31, 2018 and April 1, 2017, respectively.

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

INTEVAC, INC.

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

*Accumulated Other Comprehensive Income*

The changes in accumulated other comprehensive income by component for the three months ended March 31, 2018 and April 1, 2017, are as follows.

	Three Months Ended			Three Months Ended		
	March 31, 2018			April 1, 2017		
	Unrealized holding gains (losses) on available-for-sale investments			Unrealized holding gains (losses) on available-for-sale investments		
	Foreign currency		Total	Foreign currency		Total
(In thousands)						
Beginning balance	\$ 535	\$ (45)	\$490	\$ 343	\$ (22)	\$321
Other comprehensive income before reclassification	104	(28)	76	34	4	38
Amounts reclassified from other comprehensive income	—	—	—	—	—	—
Net current-period other comprehensive income	104	(28)	76	34	4	38
Ending balance	\$ 639	\$ (73)	\$566	\$ 377	\$ (18)	\$359

**13. Net Income (Loss) Per Share**

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

	Three Months Ended	
	March 31, 2018	April 1, 2017
(In thousands)		
Net income (loss)	\$ (5,136)	\$ 1,829
Weighted-average shares – basic	22,107	21,216
Effect of dilutive potential common shares	—	1,574
Weighted-average shares – diluted	22,107	22,790
Net income (loss) per share – basic	\$ (0.23)	\$ 0.09
Net income (loss) per share – diluted	\$ (0.23)	\$ 0.08

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



## INTEVAC, INC.

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

	March 31, 2018	April 1, 2017
	(In thousands)	
Stock options to purchase common stock	2,448	452
RSUs	622	—
Employee stock purchase plan	673	—

**14. Segment Reporting**

Intevac's two reportable segments are: TFE and Photonics. Intevac's chief operating decision-maker has been identified as the President and CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon Intevac's management organization structure as of March 31, 2018 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to the reportable segments disclosed.

Each reportable segment is separately managed and has separate financial results that are reviewed by Intevac's chief operating decision-maker. Each reportable segment contains closely related products that are unique to the particular segment. Segment operating profit is determined based upon internal performance measures used by the chief operating decision-maker.

Intevac derives the segment results from its internal management reporting system. The accounting policies Intevac uses to derive reportable segment results are substantially the same as those used for external reporting purposes. Management measures the performance of each reportable segment based upon several metrics, including orders, net revenues and operating income. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. Intevac manages certain operating expenses separately at the corporate level. Intevac allocates certain of these corporate expenses to the segments in an amount equal to 3% of net revenues. Segment operating income excludes interest income/expense and other financial charges and income taxes according to how a particular reportable segment's management is measured. Management does not consider impairment charges, gains and losses on divestitures and sales of intellectual property, and unallocated costs in measuring the performance of the reportable segments.

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

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

## INTEVAC, INC.

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

Information for each reportable segment for the three months ended March 31, 2018 and April 1, 2017 is as follows:

*Net Revenues*

	Three Months Ended	
	March 31, 2018	April 1, 2017
	(In thousands)	
TFE	\$ 12,789	\$21,484
Photonics	5,185	8,904
Total segment net revenues	<u>\$ 17,974</u>	<u>\$30,388</u>

*Operating Income (Loss)*

	Three Months Ended	
	March 31, 2018	April 1, 2017
	(In thousands)	
TFE	\$ (2,509)	\$ 1,859
Photonics	(1,210)	1,465
Total segment operating profit (loss)	(3,719)	3,324
Unallocated costs	(1,402)	(1,233)
Income (loss) from operations	(5,121)	2,091
Interest income and other income (expense), net	145	110
Income (loss) before income taxes	<u>\$ (4,976)</u>	<u>\$ 2,201</u>

Total assets for each reportable segment as of March 31, 2018 and December 30, 2017 are as follows:

*Assets*

	March 31, 2018	December 30, 2017
		(In thousands)
TFE	\$ 52,055	\$ 52,156
Photonics	15,733	16,364
Total segment assets	67,788	68,520
Cash, cash equivalents and investments	39,676	42,488
Restricted cash	1,000	1,000
Deferred income taxes	4	4
Other current assets	1,018	1,001
Common property, plant and equipment	1,122	1,267
Other assets	762	743
Consolidated total assets	<u>\$111,370</u>	<u>\$ 115,023</u>

INTEVAC, INC.

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

**15. Income Taxes**

Intevac recorded income tax provisions of \$160,000 for the three months ended March 31, 2018 and of \$372,000 for the three months ended April 1, 2017. The income tax provisions for the three month periods are based upon estimates of annual income (loss), annual permanent differences and statutory tax rates in the various jurisdictions in which Intevac operates. For the three-month period ended March 31, 2018 Intevac utilized net operating loss carry-forwards to offset the impact of the global intangible low-taxed income (“GILTI”) and recorded \$145,000 for withholding taxes on royalties paid to the United States from Intevac’s Singapore subsidiary as a discrete item. For the three-month period ended April 1, 2017 Intevac utilized net operating loss carry-forwards to reduce taxable U.S. income to the AMT level and recorded discrete items for audit considerations in foreign jurisdictions and stock-based compensation excess tax benefits. Intevac’s tax rate differs from the applicable statutory rates due primarily to establishment of a valuation allowance, the utilization of deferred and current credits and the effect of permanent differences and adjustments of prior permanent differences. Intevac’s future effective income tax rate depends on various factors, including the level of Intevac’s projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carry-forwards, availability of tax credits and the effectiveness of Intevac’s tax planning strategies. Management carefully monitors these factors and timely adjusts the effective income tax rate.

Tax Reform was enacted on December 22, 2017. Tax Reform reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. At March 31, 2018, we have not completed our accounting for the tax effects of enactment of Tax Reform; however, in certain cases, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. In other cases, we have not been able to make a reasonable estimate and continue to account for those items based on our existing accounting under ASC 740, Income Taxes.

Additionally, Tax Reform subjects a U.S. shareholder to tax on GILTI earned by certain foreign subsidiaries for tax years starting on or after January 1, 2018. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. The Company is still evaluating the effects of the GILTI provisions and has not yet determined its accounting policy relating to deferred taxes.

The Company historically asserted its intent to reinvest substantially all of its foreign earnings in foreign operations indefinitely. The Company is still in the process of analyzing the impact that Tax Reform has on its indefinite reinvestment assertion. Accordingly, no additional income taxes or withholding taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any outside basis difference inherent in these entities.

The Inland Revenue Authority of Singapore (“IRAS”) is currently conducting a review of the fiscal 2009 through 2012 tax returns of the Company’s wholly-owned subsidiary, Intevac Asia Pte. Ltd. IRAS has challenged the Company’s tax position with respect to certain aspects of the Company’s transfer pricing. Under Singapore tax law, the Company must pay all contested taxes and the related interest to have the right to defend its position. The contested tax deposits of \$762,000 at March 31, 2018 and \$743,000 at December 30, 2017 are included in other long-term assets on the condensed consolidated balance sheets. The Company’s management and its advisors continue to believe that the Company is “more likely than not” to successfully defend that the tax treatment was proper and in accordance with Singapore tax regulations. Presently, there are no other active income tax examinations in the jurisdictions where Intevac operates.

INTEVAC, INC.

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

**16. Restructuring Charges**

During the first quarter of fiscal 2018, Intevac substantially completed implementation of the 2018 cost reduction plan (the “Plan”), which was intended to reduce expenses and reduce its workforce by 6 percent. The cost of implementing the Plan was reported under cost of net revenues and operating expenses in the condensed consolidated statements of operations. Substantially all cash outlays in connection with the Plan occurred in the first quarter of fiscal 2018. Implementation of the Plan is expected to reduce salary, wages and other employee-related expenses by approximately \$1.8 million on an annual basis.

The changes in restructuring reserves associated with the Plan for the three months ended March 31, 2018 are as follows.

	<b>Three Months Ended March 31, 2018</b>
	<b>Severance and other employee- related costs (In thousands)</b>
Beginning balance	\$ —
Provision for restructuring reserves	95
Cash payments made	(95)
Ending balance	\$ —

**17. Commitments and Contingencies**

From time to time, Intevac may have certain contingent liabilities that arise in the ordinary course of its business activities. Intevac accounts for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

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[Table of Contents](#)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Quarterly Report on Form 10-Q contains forward-looking statements, which involve risks and uncertainties. Words such as “believes,” “expects,” “anticipates” and the like indicate forward-looking statements. These forward-looking statements include comments related to Intevac’s shipments, projected revenue recognition, product costs, gross margin, operating expenses, interest income, income taxes, cash balances and financial results in 2018 and beyond; projected customer requirements for Intevac’s new and existing products, and when, and if, Intevac’s customers will place orders for these products; Intevac’s ability to proliferate its Photonics technology into major military programs and to develop and introduce commercial imaging products; the timing of delivery and/or acceptance of the systems and products that comprise Intevac’s backlog for revenue and the Company’s ability to achieve cost savings. Intevac’s actual results may differ materially from the results discussed in the forward-looking statements for a variety of reasons, including those set forth under “Risk Factors” and in other documents we file from time to time with the Securities and Exchange Commission, including our Annual Report on Form 10-K filed on February 14, 2018, and our periodic Form 10-Q’s and Form 8-K’s.

**Overview**

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

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

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

The following table presents certain significant measurements for the three months ended March 31, 2018 and April 1, 2017:

	Three Months Ended		
	March 31, 2018	April 1, 2017	Change over prior period
	(In thousands, except percentages and per share amounts)		
Net revenues	\$ 17,974	\$30,388	\$ (12,414)
Gross profit	\$ 4,875	\$13,047	\$ (8,172)
Gross margin percent	27.1%	42.9%	(15.8) points
Net income (loss)	\$ (5,136)	\$ 1,829	\$ (6,965)
Net income (loss) per diluted share	\$ (0.23)	\$ 0.08	\$ (0.31)

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Net revenues decreased during the first quarter of fiscal 2018 compared to the same period in the prior year primarily due to lower TFE sales and lower Photonics product sales, offset in part by higher Photonics technology development contracts. TFE recognized revenue on one 200 Lean® HDD system in the first quarter of fiscal 2018 compared to four VERTEX® coating systems for DCP and one 200 Lean HDD system in the first quarter of fiscal 2017. The Company reported a net loss for the first quarter of fiscal 2018 compared to net income for the first quarter of 2017 due to lower revenues and lower gross margins, offset in part by lower operating expenses as the Company recorded lower variable compensation expenses.

Intevac expects that HDD equipment sales will be approximately at the same levels as 2017 as a HDD manufacturer takes delivery of the two 200 Lean systems in backlog and we expect additional 200 Lean system orders. In 2018, Intevac expects follow on orders for our VERTEX coating systems for DCPs, however, revenue of VERTEX will be slightly lower than 2017. Of our twelve ENERGi systems in backlog, we expect to recognize revenue on six ENERGi implant systems in 2018, with the remaining six in revenue in 2019. Photonics will continue to deliver production shipments of the night-vision camera modules for the F35 Joint Strike Fighter program in fiscal 2018, but at a lower rate than in 2017. Deliveries under the multi-year Apache arrangement were completed in 2017. With the completion of the Apache program, our Photonics revenue profile will be lower than 2017, and is now moving from a product-driven one to a funded research and development (“R&D”) revenue profile. For fiscal 2018, Intevac expects that Photonics margins will also be lower than fiscal 2017 as Photonics results will reflect a higher mix of lower margin contract R&D revenue.

Intevac’s trademarks, include the following: “200 Lean®,” “AccuLuber®,” “EBAPS®,” “ENERGi®,” “I-Port™,” “LIVAR®,” “INTEVAC LSMA™,” “INTEVAC MATRIX®,” “MicroVista®,” “NightVista®,” “Night Port™,” “oDLC®” and “INTEVAC VERTEX®”.

## Results of Operations

### Net revenues

	Three Months Ended		
	March 31, 2018	April 1, 2017	Change over prior period
	(In thousands)		
TFE	\$ 12,789	\$ 21,484	\$ (8,695)
Photonics			
Products	2,683	6,939	(4,256)
Contract R&D	2,502	1,965	537
	<u>5,185</u>	<u>8,904</u>	<u>(3,719)</u>
Total net revenues	<u>\$ 17,974</u>	<u>\$ 30,388</u>	<u>\$ (12,414)</u>

TFE revenue for the three months ended March 31, 2018 included revenue recognized for one 200 Lean HDD system, disk equipment technology upgrades and spare parts. TFE revenue for the three months ended April 1, 2017 included revenue recognized for four VERTEX coating systems for DCP and one 200 Lean HDD system, disk equipment technology upgrades and spare parts.

Photonics revenue for the three months ended March 31, 2018 decreased compared to the same period in the prior year as a result of lower product sales, offset in part by higher contract R&D work.

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*Backlog*

	March 31, 2018	December 30, 2017	April 1, 2017
	(In thousands)		
TFE	\$ 55,589	\$ 51,719	\$56,233
Photonics	11,261	12,302	16,731
Total backlog	<u>\$ 66,850</u>	<u>\$ 64,021</u>	<u>\$72,964</u>

TFE backlog at March 31, 2018 includes two 200 Lean HDD systems and twelve ENERGi solar ion implant systems. Three of the twelve ENERGi systems have been delivered to the customer's fab and are awaiting installation. Delivery of the remaining nine tools is pending finalization of shipment dates with the customer. TFE backlog at December 30, 2017 included three 200 Lean HDD systems and twelve ENERGi solar ion implant systems. TFE backlog at April 1, 2017 included three 200 Lean systems, fourteen ENERGi solar ion implant systems and one MATRIX implant pilot system.

*Revenue by geographic region*

	Three Months Ended March 31, 2018			Three Months Ended April 1, 2017		
	(In thousands)					
	TFE	Photonics	Total	TFE	Photonics	Total
United States	\$ 1,911	\$ 4,762	\$ 6,673	\$ 613	\$ 8,589	\$ 9,202
Asia	10,878	—	10,878	20,871	—	20,871
Europe	—	293	293	—	315	315
Rest of World	—	130	130	—	—	—
Total net revenues	<u>\$12,789</u>	<u>\$ 5,185</u>	<u>\$17,974</u>	<u>\$21,484</u>	<u>\$ 8,904</u>	<u>\$30,388</u>

International sales include products shipped to overseas operations of U.S. companies. The decrease in sales to the U.S. region in 2018 versus 2017 reflected lower Photonics product sales, offset in part by higher Photonics contract R&D work. Sales to the Asia region in 2018 included one 200 Lean system versus four VERTEX coating systems for DCP and one 200 Lean system in 2017. Sales to the Europe region in 2018 and 2017 were not significant. Rest of World includes contract R&D for the Australian government as part of a program under the Department of Defense's Coalition Warfare Program which is funded by the U.S. government and several foreign nation coalition partners.

*Gross profit*

	Three Months Ended		
	March 31, 2018	April 1, 2017	Change over prior period
	(In thousands, except percentages)		
TFE gross profit	\$ 4,555	\$ 9,255	\$ (4,700)
% of TFE net revenues	35.6%	43.1%	
Photonics gross profit	\$ 320	\$ 3,792	\$ (3,472)
% of Photonics net revenues	6.2%	42.6%	
Total gross profit	\$ 4,875	\$13,047	\$ (8,172)
% of net revenues	27.1%	42.9%	

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

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TFE gross margin was 35.6% in the three months ended March 31, 2018 compared to 43.1% in the three months ended April 1, 2017. The decrease in margins was due to lower revenue levels and lower factory absorption. Gross margins in the TFE business will vary depending on a number of factors, including revenue levels, product mix, product cost, system configuration and pricing, factory utilization, and provisions for excess and obsolete inventory.

Photonics gross margin was 6.2% in the three months ended March 31, 2018 compared to 42.6% in the three months ended April 1, 2017. Lower Photonics gross margins for the three months ended March 31, 2018 reflected lower revenue levels, a higher mix of lower margin contract R&D work and loss provisions taken on certain FFP contracts.

### *Research and development*

	Three Months Ended		
	March 31, 2018	April 1, 2017	Change over prior period
	(In thousands)		
Research and development expense	\$ 4,167	\$4,682	\$ (515)

Research and development spending in TFE during the three months ended March 31, 2018 increased slightly compared to the three months ended April 1, 2017. TFE spending consisted primarily of semiconductor Fan-out, DCP and PV development. Research and development spending decreased in Photonics during the three months ended March 31, 2018 as compared to the three months ended April 1, 2017. Research and development expenses do not include costs of \$2.4 million and \$1.7 million for the three-month periods ended March 31, 2018 and April 1, 2017, respectively, which are related to customer-funded contract R&D programs in Photonics and therefore included in cost of net revenues.

### *Selling, general and administrative*

	Three Months Ended		
	March 31, 2018	April 1, 2017	Change over prior period
	(In thousands)		
Selling, general and administrative expense	\$ 5,829	\$6,274	\$ (445)

Selling, general and administrative expense consists primarily of selling, marketing, customer support, financial and management costs. Selling, general and administrative expenses for the three months ended March 31, 2018 decreased compared to the three months ended April 1, 2017 primarily due to lower variable compensation costs, lower legal expenses for patent applications and lower spending for strategic consulting.

### *Cost reduction plans*

During the first quarter of fiscal 2018, Intevac substantially completed implementation of the 2018 cost reduction plan (the "Plan"), which was intended to reduce expenses and reduce its workforce by 6 percent. The total cost of implementing the Plan was \$95,000 of which \$61,000 was reported under cost of net revenues and \$34,000 was reported under operating expenses. Substantially all cash outlays in connection with the Plan were completed in the first quarter of fiscal 2018. Implementation of the Plan is expected to reduce salary, wages and other employee-related expenses by approximately \$1.8 million on an annual basis.



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**Table of Contents***Interest income and other income (expense), net*

	Three Months Ended		
	March 31, 2018	April 1, 2017	Change over prior period
	(In thousands)		
Interest income and other income (expense), net	\$ 145	\$ 110	\$ 35

Interest income and other income (expense), net in the three months ended March 31, 2018 included \$102,000 of interest income on investments, \$55,000 of earnout income from a divestiture and various other income of \$17,000, offset in part by \$29,000 of foreign currency losses. Interest income and other income (expense), net in the three months ended April 1, 2017 included \$56,000 of interest income on investments, \$45,000 of earnout income from a divestiture and various other income of \$53,000, offset in part by \$44,000 of foreign currency losses. The increase in interest income in the three months ended March 31, 2018 resulted from higher interest rates offset in part by lower invested balances.

*Income tax provision*

	Three Months Ended		
	March 31, 2018	April 1, 2017	Change over prior period
	(In thousands)		
Income tax provision	\$ 160	\$ 372	\$ (212)

Intevac recorded income tax provisions of \$160,000 for the three months ended March 31, 2018 and of \$372,000 for the three months ended April 1, 2017. The income tax provisions for the three month periods are based upon estimates of annual income (loss), annual permanent differences and statutory tax rates in the various jurisdictions in which Intevac operates. For the three months ended March 31, 2018 Intevac utilized net operating loss carry-forwards to offset the impact of the GILTI and recorded \$145,000 for withholding taxes on royalties paid to the United States from Intevac's Singapore subsidiary as a discrete item. For the three months ended April 1, 2017 Intevac utilized net operating loss carry-forwards to reduce taxable U.S. income to the AMT level and recorded discrete items for audit considerations in foreign jurisdictions and stock-based compensation excess tax benefits. Intevac's tax rate differs from the applicable statutory rates due primarily to establishment of a valuation allowance, the utilization of deferred and current credits and the effect of permanent differences and adjustments of prior permanent differences. Intevac's future effective income tax rate depends on various factors, including the level of Intevac's projected earnings, the geographic composition of worldwide earnings, tax regulations governing each region, net operating loss carry-forwards, availability of tax credits and the effectiveness of Intevac's tax planning strategies. Management carefully monitors these factors and timely adjusts the effective income tax rate.

**Liquidity and Capital Resources**

At March 31, 2018, Intevac had \$40.7 million in cash, cash equivalents, restricted cash and investments compared to \$43.5 million at December 30, 2017. During the first three months of 2018, cash, cash equivalents, restricted cash and investments decreased by \$2.8 million due primarily to cash used by operating activities, purchases of fixed assets and tax payments related to the net share settlement of restricted stock units partially offset by cash received from the sale of Intevac common stock to Intevac's employees through Intevac's employee benefit plans.

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Cash, cash equivalents, restricted cash and investments consist of the following:

	March 31, 2018	December 30, 2017
	(In thousands)	
Cash and cash equivalents	\$ 16,306	\$ 19,941
Restricted cash	1,000	1,000
Short-term investments	19,093	15,698
Long-term investments	4,277	6,849
Total cash, cash equivalents, restricted cash and investments	<u>\$ 40,676</u>	<u>\$ 43,488</u>

Operating activities used cash of \$4.0 million during the first three months of 2018 and used cash of \$2.0 million during the first three months of 2017. Lower operating cash flow the first three months of 2018 was a result of the recognition of a net loss and additional investments in working capital.

Accounts receivable totaled \$18.5 million at March 31, 2018 compared to \$20.5 million at December 30, 2017. Net inventories totaled \$35.6 million at March 31, 2018 compared to \$33.8 million at December 30, 2017. Net inventories at both March 31, 2018 and December 30, 2017 include three ENERGi implant systems at a customer site for which installation procedures have not begun and five ENERGi implant systems in work in process that are virtually complete, pending customer shipment. Accounts payable totaled \$5.0 million at March 31, 2018 compared to \$3.9 million at December 30, 2017. Accrued payroll and related liabilities decreased to \$3.6 million at March 31, 2018 compared to \$6.8 million at December 30, 2017 due primarily to the settlement of 2017 bonuses. Other accrued liabilities increased to \$9.8 million at March 31, 2018 compared to \$7.7 million at December 30, 2017. Customer advances increased from \$11.0 million at December 30, 2017 to \$11.7 million at March 31, 2018, primarily due to the recognition of new orders, offset in part by the recognition of revenue.

Investing activities used cash of \$1.4 million during the first three months of 2018. Purchases of investments net of proceeds from sales totaled \$833,000. Capital expenditures for the three months ended March 31, 2018 were \$592,000.

Financing activities generated cash of \$1.7 million in the first three months of 2018. The sale of Intevac common stock to Intevac's employees through Intevac's employee benefit plans generated cash of \$2.1 million. Tax payments related to the net share settlement of restricted stock units were \$333,000.

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

As of March 31, 2018, approximately \$6.3 million of cash and cash equivalents and \$2.8 million of short term investments were domiciled in foreign tax jurisdictions. Intevac expects a significant portion of these funds to remain off shore in the short term. If the Company chose to repatriate these funds to the United States, it would be required to accrue and pay additional taxes on any portion of the repatriation subject to foreign withholding taxes.

Intevac believes that its existing cash, cash equivalents and investments will be sufficient to meet its cash requirements for the foreseeable future. Intevac intends to undertake approximately \$5.0 million to \$6.0 million in capital expenditures during the remainder of 2018.

### Off-Balance Sheet Arrangements

Off-balance sheet firm commitments relating to outstanding letters of credit amounted to approximately \$1.0 million as of March 31, 2018. These letters of credit and bank guarantees are collateralized by \$1.0 million of restricted cash. We do not maintain any other off-balance sheet arrangements, transactions, obligations, or other relationships that would be expected to have a material current or future effect on the consolidated financial statements.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) requires management to make judgments, assumptions and estimates that affect the amounts reported. Intevac’s significant accounting policies are described in Note 1 to the consolidated financial statements included in Item 8 of Intevac’s Annual Report on Form 10-K filed on February 14, 2018. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

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

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

Beginning December 31, 2017, we implemented ASC 606, Revenue from Contracts with Customers. For a description of our critical accounting policies and estimates affecting revenue recognition, see Note 2. “Summary of Significant Accounting Policies” to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. For a description of other critical accounting policies that affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements, refer to our Annual Report on Form 10-K for the year ended December 30, 2017 filed with the SEC on February 14, 2018. With the exception of the changes to our revenue recognition policies referenced above, there have been no material changes to our critical accounting policies during the during the three months ended March 31, 2018.

### **Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

*Interest rate risk.* Intevac’s exposure to market risk for changes in interest rates relates primarily to its investment portfolio. Intevac does not use derivative financial instruments in Intevac’s investment portfolio. The Company has adopted an investment policy and established guidelines relating to credit quality, diversification and maturities of its investments in order to preserve principal and maintain liquidity. All investment securities in Intevac’s portfolio have an investment grade credit rating. Investments typically consist of certificates of deposit, commercial paper, obligations of the U.S. government and its agencies, corporate debt securities and municipal bonds.

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The table below presents principal amounts and related weighted-average interest rates by year of expected maturity for Intevac's investment portfolio at March 31, 2018.

	2018	2019	Total	Fair Value
	(In thousands, except percentages)			
Cash equivalents				
Variable rate amounts	\$ 5,522	\$ —	\$ 5,522	\$ 5,522
Weighted-average rate	1.45%	—		
Fixed rate amounts	\$ 500	—	\$ 500	\$ 500
Weighted-average rate	1.64%	—		
Short-term investments				
Fixed rate amounts	\$15,171	\$3,964	\$19,135	\$19,093
Weighted-average rate	1.75%	2.13%		
Long-term investments				
Fixed rate amounts	\$ —	\$4,308	\$ 4,308	\$ 4,277
Weighted-average rate	—	2.04%		
Total investment portfolio	\$21,193	\$8,272	\$29,465	\$29,392

*Foreign exchange risk.* From time to time, Intevac enters into foreign currency forward exchange contracts to hedge certain of its anticipated foreign currency re-measurement exposures and to offset certain operational exposures from the impact of changes in foreign currency exchange rates. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on Intevac's operating results. The derivatives have original maturities of approximately 30 days. The notional amount of Intevac's foreign currency derivatives was \$873,000 at March 31, 2018 and \$1.3 million at December 30, 2017.

### **Item 4. Controls and Procedures**

#### **Evaluation of disclosure controls and procedures**

Intevac maintains a set of disclosure controls and procedures that are designed to ensure that information relating to Intevac required to be disclosed in periodic filings under the Securities Exchange Act of 1934, or Exchange Act, is recorded, processed, summarized and reported in a timely manner under the Exchange Act. In connection with the filing of this Form 10-Q for the quarter ended March 31, 2018, as required under Rule 13a-15(b) of the Exchange Act, an evaluation was carried out under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer (the "CEO" and "CFO"), of the effectiveness of Intevac's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, Intevac's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2018.

Attached as exhibits to this Quarterly Report are certifications of the CEO and the CFO, which are required in accordance with Rule 13a-14 of the Exchange Act. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

#### **Definition of disclosure controls**

Disclosure Controls are controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure Controls are also designed to ensure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our Disclosure Controls include components of our internal control over financial reporting, which consists of control processes

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designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the U.S. To the extent that components of our internal control over financial reporting are included within our Disclosure Controls, they are included in the scope of our quarterly controls evaluation.

**Limitations on the effectiveness of controls**

Intevac's management, including the CEO and CFO, does not expect that Intevac's Disclosure Controls or Intevac's internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Intevac have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Changes in internal controls over financial reporting**

Beginning December 31, 2017, we implemented ASC 606, Revenue from Contracts with Customers. Although the new revenue standard is expected to have an immaterial impact on our ongoing net income, we did implement changes to our processes related to revenue recognition and the control activities within them. These included the development of new policies based on the five-step model provided in the new revenue standard, ongoing contract review requirements, and gathering of information provided for disclosures.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

The following factors could materially affect Intevac's business, financial condition or results of operations and should be carefully considered in evaluating the Company and its business, in addition to other information presented elsewhere in this report.

***The industries we serve are cyclical, volatile and unpredictable.***

A significant portion of our revenue is derived from the sale of equipment used to manufacture commodity technology products such as disk drives, PV solar cells and cell phones. This subjects us to business cycles, the timing, length and volatility of which can be difficult to predict. When demand for commodity technology products exceeds production capacity, then demand for new capital equipment such as ours tends to be amplified. Conversely, when

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supply of commodity technology products exceeds demand, then demand for new capital equipment such as ours tends to be depressed. For example, sales of systems for magnetic disk production were depressed from late 2007 through 2009. The number of new systems delivered increased in 2010 as customers increased their production capacity in response to increased demand for data storage, but decreased in 2011 through 2015 as the hard disk drive industry did not add the same level of capacity that it did in 2010. We cannot predict with any certainty when these cycles will begin or end. Our sales of systems for magnetic disk production increased modestly in 2016 as a customer began upgrading the technology level of its manufacturing capacity. 2017 sales of systems for magnetic disk production were higher than 2016 levels as this customer's technology upgrade continued.

Our equipment represents only a portion of the capital expenditure that our customers incur when they upgrade or add production capacity. Accordingly, our customers generally commit to making large capital expenditures far in excess of the cost of our systems alone when they decide to purchase our systems. The magnitude of these capital expenditures requires our customers to have access to large amounts of capital. Our customers generally reduce their level of capital investment during downturns in the overall economy or during a downturn in their industries.

In recent years the photovoltaic (solar) market has undergone a downturn, which is likely to impact our sales of PV equipment. The solar industry from time to time experiences periods of structural imbalance between supply and demand, and such periods put intense pressure on our customers' pricing. The solar industry is currently in such a period. Competition in solar markets globally and across the solar value chain is intense, and could remain that way for an extended period of time. During any such period, solar module manufacturers may reduce their sales prices in response to competition, even below their manufacturing costs, in order to generate sales and may do so for a sustained period of time. As a result, our customers may be unable to sell their solar modules or systems at attractive prices or for a profit during a period of excess supply of solar modules, which would adversely affect their results of operations and their ability to make capital investments such as purchasing our products.

We must effectively manage our resources and production capacity to meet rapidly changing demand. Our business experiences rapid growth and contraction, which stresses our infrastructure, internal systems and managerial resources. During periods of increasing demand for our products, we must have sufficient manufacturing capacity and inventory to meet customer demand; attract, retain and motivate a sufficient number of qualified individuals; and effectively manage our supply chain. During periods of decreasing demand for our products, we must be able to align our cost structure with prevailing market conditions; motivate and retain key employees and effectively manage our supply chain.

***Sales of our equipment are primarily dependent on our customers' upgrade and capacity expansion plans and whether our customers select our equipment.***

We have no control over our customers' upgrade and capacity expansion plans, and we cannot be sure they will select, or continue to select, our equipment when they upgrade or expand their capacity. The sales cycle for our equipment systems can be a year or longer, involving individuals from many different areas of Intevac and numerous product presentations and demonstrations for our prospective customers. Our sales process also commonly includes production of samples and customization of our products. We do not typically enter into long-term contracts with our customers, and until an order is actually submitted by a customer there is no binding commitment to purchase our systems.

Sales of new manufacturing systems are also dependent on obsolescence and replacement of the installed base of our customers' existing equipment with newer, more capable equipment. If upgrades are developed that extend the useful life of the installed base of systems, then we tend to sell more upgrade products and fewer new systems, which can significantly reduce total revenue.

Our 200 Lean customers also experience competition from companies that produce alternative storage technologies like flash memory, which offer smaller size, lower power consumption and more rugged designs. These storage technologies are being used increasingly in enterprise applications and smaller form factors such as tablets, smart-phones, ultra-books, and notebook PCs instead of hard disk drives. Tablet computing devices and smart-phones

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have never contained, nor are they likely in the future to contain, a disk drive. Products using alternative technologies, such as flash memory, optical storage and other storage technologies are becoming increasingly common and could become a significant source of competition to particular applications of the products of our 200 Lean customers, which could adversely affect our results of operations. If alternative technologies, such as flash memory, replace hard disk drives as a significant method of digital storage, then demand for our hard disk manufacturing products would decrease.

The Photonics business is also subject to long sales cycles because many of its products, such as our military imaging products, often must be designed into the customers' end products, which are often complex state-of-the-art products. These development cycles are typically multi-year, and our sales are contingent on our customers successfully integrating our product into their product, completing development of their product and then obtaining production orders for their product from the U.S. government or its allies.

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

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

***Our growth depends on development of technically advanced new products and processes.***

We have invested heavily, and continue to invest, in the development of new products, such as our 200 Lean and other PVD systems, our coating systems for DCP, our solar systems for PV applications, our digital night-vision products and our near-eye display products. Our success in developing and selling new products depends upon a variety of factors, including our ability to: predict future customer requirements; make technological advances; achieve a low total cost of ownership for our products; introduce new products on schedule; manufacture products cost-effectively including transitioning production to volume manufacturing; commercialize and attain customer acceptance of our products; and achieve acceptable and reliable performance of our new products in the field. Our new product decisions and development commitments must anticipate continuously evolving industry requirements significantly in advance of sales. In addition, we are attempting to expand into new or related markets, including the PV and display cover glass markets. Our expansion into the PV and cover glass markets is dependent upon the success of our customers' development plans. To date we have not recognized material revenue from such products. Failure to correctly assess the size of the markets, to successfully develop cost effective products to address the markets or to establish effective sales and support of the new products would have a material adverse effect on future revenues and profits. In addition, if we invest in products for which the market does not develop as anticipated, we may incur significant charges related to such investments.

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

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### ***We are exposed to risks associated with a highly concentrated customer base.***

Historically, a significant portion of our revenue in any particular period has been attributable to sales of our disk sputtering systems to a limited number of customers. This concentration of customers, when combined with changes in the customers' specific capacity plans and market share shifts can lead to extreme variability in our revenue and financial results from period to period.

The concentration of our customer base may enable our customers to demand pricing and other terms unfavorable to Intevac, and makes us more vulnerable to changes in demand by a given customer. Orders from a relatively limited number of manufacturers have accounted for, and will likely continue to account for, a substantial portion of our revenues. The loss of one of these large customers, or delays in purchasing by them, could have a material and adverse effect on our revenues.

### ***Our operating results fluctuate significantly from quarter to quarter, which can lead to volatility in the price of our common stock.***

Our quarterly revenues and common stock price have fluctuated significantly. We anticipate that our revenues, operating margins and common stock price will continue to fluctuate for a variety of reasons, including: (1) changes in the demand, due to seasonality, cyclicality and other factors in the markets for computer systems, storage subsystems and consumer electronics containing disks as well as cell phones and PV solar cells our customers produce with our systems; (2) delays or problems in the introduction and acceptance of our new products, or delivery of existing products; (3) timing of orders, acceptance of new systems by our customers or cancellation of those orders; (4) new products, services or technological innovations by our competitors or us; (5) changes in our manufacturing costs and operating expense; (6) changes in general economic, political, stock market and industry conditions; and (7) any failure of our operating results to meet the expectations of investment research analysts or investors.

Any of these, or other factors, could lead to volatility and/or a rapid change in the trading price of our common shares. In the past, securities class action litigation has been instituted against companies following periods of volatility in the market price of their securities. Any such litigation, if instituted against Intevac, could result in substantial costs and diversion of management time and attention.

### ***We may not be able to obtain export licenses from the U.S. government permitting delivery of our products to international customers.***

Many of our products, especially Photonics products, require export licenses from U.S. government agencies under the Export Administration Act, the Trading with the Enemy Act of 1917, the Arms Export Act of 1976 or the International Traffic in Arms Regulations. These regulations limit the potential market for some of our products. We can give no assurance that we will be successful in obtaining all the licenses necessary to export our products. Heightened government scrutiny of export licenses for defense related products has resulted in lengthened review periods for our license applications. Exports to countries that are not considered by the U.S. government to be allies are likely to be prohibited, and even sales to U.S. allies may be limited. Failure to comply with export control laws, including identification and reporting of all exports and re-exports of controlled technology or exports made without correct license approval or improper license use could result in severe penalties and revocation of licenses. Failure to obtain export licenses, delays in obtaining licenses, or revocation of previously issued licenses would prevent us from selling the affected products outside the United States and could negatively impact our results of operations.

### ***The Photonics business is dependent on U.S. government contracts, which are subject to fixed pricing, immediate termination and a number of procurement rules and regulations.***

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



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Funding of multi-year government programs is subject to congressional appropriations, and there is no guarantee that the U.S. government will make further appropriations, particularly given the U.S. government's recent focus on spending in other areas and spending reductions. Sales to the U.S. government and its prime contractors may also be affected by changes in procurement policies, budget considerations and political developments in the United States or abroad. For example, if the U.S. government is less focused on defense spending or there is a decrease in hostilities, demand for our products could decrease. The loss of funding for a government program would result in a loss of future revenues attributable to that program. The influence of any of these factors, which are beyond our control, could negatively impact our results of operations.

A significant portion of our U.S. government revenue is derived from fixed-price development and production contracts. Under fixed-price contracts, unexpected increases in the cost to develop or manufacture a product, whether due to inaccurate estimates in the bidding process, unanticipated increases in material costs, reduced production volumes, inefficiencies or other factors, are borne by us. We have experienced cost overruns in the past that have resulted in losses on certain contracts, and may experience additional cost overruns in the future. We are required to recognize the total estimated impact of cost overruns in the period in which they are first identified. Such cost overruns could have a material adverse effect on our results of operations.

Generally, government contracts contain provisions permitting termination, in whole or in part, without prior notice at the government's convenience upon the payment of compensation only for work done and commitments made at the time of termination. We cannot ensure that one or more of the government contracts under which we, or our customers, operate will not be terminated under these circumstances. Also, we cannot ensure that we, or our customers, would be able to procure new government contracts to offset the revenues lost as a result of any termination of existing contracts, nor can we ensure that we, or our customers, will continue to remain in good standing as federal contractors.

As a U.S. government contractor we must comply with specific government rules and regulations and are subject to routine audits and investigations by U.S. government agencies. If we fail to comply with these rules and regulations, the results could include: (1) reductions in the value of our contracts; (2) reductions in amounts previously billed and recognized as revenue; (3) contract modifications or termination; (4) the assessment of penalties and fines; and (5) suspension or debarment from government contracting or subcontracting for a period of time or permanently.

### ***Changes to our effective tax rate affect our results of operations.***

As a global company, we are subject to taxation in the United States, Singapore and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Our future effective tax rate could be affected by: (1) changes in tax laws; (2) the allocation of earnings to countries with differing tax rates; (3) changes in worldwide projected annual earnings in current and future years; (4) accounting pronouncements; or (5) changes in the valuation of our deferred tax assets and liabilities. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be different from the treatment reflected in our historical income tax provisions and accruals, which could result in additional payments by Intevac.

### ***Comprehensive tax reform could adversely affect the company's business and financial condition.***

Tax Reform was enacted on December 22, 2017 and significantly reforms the Internal Revenue Code of 1986, as amended. Tax Reform contains significant changes to corporate taxation, including reduction of the corporate tax rate from 35% to 21%, limitation of the tax deduction for interest expense to 30% of earnings, limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments

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instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits. Notwithstanding the reduction in the corporate income tax rate, the overall impact of Tax Reform is uncertain, and the combined Company's business and financial condition could be adversely affected.

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

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

Managing our global operations presents challenges including, but not limited to, those arising from: (1) global trade issues; (2) variations in protection of intellectual property and other legal rights in different countries; (3) concerns of U.S. governmental agencies regarding possible national commercial and/or security issues posed by growing manufacturing business in Asia; (4) fluctuation of interest rates, raw material costs, labor and operating costs, and exchange rates; (5) variations in the ability to develop relationships with suppliers and other local businesses; (6) changes in the laws and regulations of the United States, including export restrictions, and other countries, as well as their interpretation and application; (7) the need to provide technical and spares support in different locations; (8) political and economic instability; (9) cultural differences; (10) varying government incentives to promote development; (11) shipping costs and delays; (12) adverse conditions in credit markets; (13) variations in tariffs, quotas, tax codes and other market barriers; and (14) barriers to movement of cash.

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

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

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

### ***We may be subject to additional impairment charges due to potential declines in the fair value of our assets.***

As a result of our acquisitions, we have significant intangible assets and had significant goodwill on our balance sheet. We test these assets for impairment on a periodic basis as required, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The events or changes that could require us to test our intangible assets for impairment include: a significant reduction in our stock price, and as a result market capitalization, changes in our estimated future cash flows, as well as changes in rates of growth in our industry or in any of our reporting units. In the fourth quarter of 2012, as a result of a decline in our market capitalization and a reduction in our revenue expectations we recorded a goodwill impairment charge in the amount of \$18.4 million. We

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will continue to evaluate the carrying value of our intangible assets and if we determine in the future that there is a potential further impairment, we may be required to record additional charges to earnings which could materially adversely affect our financial results and could also materially adversely affect our business.

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

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

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

### ***We are dependent on certain suppliers for parts used in our products.***

We are a manufacturing business. Purchased parts constitute the largest component of our product cost. Our ability to manufacture depends on the timely delivery of parts, components and subassemblies from suppliers. We obtain some of the key components and subassemblies used in our products from a single supplier or a limited group of suppliers. If any of our suppliers fail to deliver quality parts on a timely basis, we may experience delays in manufacturing, which could result in delayed product deliveries, increased costs to expedite deliveries or develop alternative suppliers, or require redesign of our products to accommodate alternative suppliers. Some of our suppliers are thinly capitalized and may be vulnerable to failure.

### ***Our business depends on the integrity of our intellectual property rights.***

The success of our business depends upon the integrity of our intellectual property rights, and we cannot ensure that: (1) any of our pending or future patent applications will be allowed or that any of the allowed applications will be issued as patents or will issue with claims of the scope we sought; (2) any of our patents will not be invalidated, deemed unenforceable, circumvented or challenged; (3) the rights granted under our patents will provide competitive advantages to us; (4) other parties will not develop similar products, duplicate our products or design around our patents; or (5) our patent rights, intellectual property laws or our agreements will adequately protect our intellectual property or competitive position.

From time to time, we have received claims that we are infringing third parties' intellectual property rights or seeking to invalidate our rights. We cannot ensure that third parties will not in the future claim that we have infringed current or future patents, trademarks or other proprietary rights relating to our products. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us.

### ***We could be involved in litigation.***

From time to time we may be involved in litigation of various types, including litigation alleging infringement of intellectual property rights and other claims. Litigation is expensive, subjects us to the risk of significant damages and requires significant management time and attention and could have a material and adverse effect on our business, financial condition and results of operations.

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

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

***Business interruptions could adversely affect our operations.***

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

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

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

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***We are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.***

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, our management must perform evaluations of our internal control over financial reporting. Beginning in 2004, our Form 10-K has included a report by management of their assessment of the adequacy of such internal control. Additionally, our independent registered public accounting firm must publicly attest to the effectiveness of our internal control over financial reporting. We have completed the evaluation of our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act. Although our assessment, testing, and evaluation resulted in our conclusion that as of December 30, 2017, our internal controls over financial reporting were effective, we cannot predict the outcome of our testing in future periods. Ongoing compliance with this requirement is complex, costly and time-consuming. If Intevac fails to maintain effective internal control over financial reporting; our management does not timely assess the adequacy of such internal control; or our independent registered public accounting firm does not deliver an unqualified opinion as to the effectiveness of our internal control over financial reporting, then we could be subject to restatement of previously reported financial results, regulatory sanctions and a decline in the public's perception of Intevac, which could have a material and adverse effect on our business, financial condition and results of operations.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On November 21, 2013, Intevac's Board of Directors approved a stock repurchase program authorizing up to \$30.0 million in repurchases. At March 31, 2018, \$1.5 million remains available for future stock repurchases under the repurchase program. Intevac did not make any common stock repurchases during the three months ended March 31, 2018.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

The following exhibits are filed herewith:

Exhibit Number	Description
10.1	<a href="#">The Registrant's 2003 Employee Stock Purchase Plan, as amended (1) +</a>
10.2	<a href="#">The Registrant's 2012 Equity Incentive Plan, as amended (1) +</a>
10.3	<a href="#">Change in Control Agreement with Timothy Justyn dated March 2, 2018 +</a>
10.4	<a href="#">Separation Agreement with Andres Brugal dated February 15, 2018 +</a>
31.1	<a href="#">Certification of President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Executive Vice President, Finance and Administration, Chief Financial Officer, and Treasurer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1	<a href="#">Certifications Pursuant to U.S.C. 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Previously filed as an exhibit to the Company's Definitive Proxy Statement filed April 11, 2018.

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

**SIGNATURES**

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

INTEVAC, INC.

Date: May 1, 2018

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

Date: May 1, 2018

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

### Change of Control Agreement

Intevac, Inc. (hereafter referred to as “Intevac” or the “Company”) employs **Timothy Justyn** (hereafter referred to as the “Employee”) and desires to provide certain benefits to the Employee in the event of a Division Sale as described herein and the Employee’s employment terminates thereafter under certain conditions. Accordingly, the Company and the Employee agree as follows:

#### **1. Definitions.**

**1.1. Cause.** For purposes of this Division Sale Agreement (hereafter referred to as the “Agreement”), the term “Cause” shall mean the occurrence while the Employee is employed by the Buyer (as defined below) of one or more of the following:

- (a) the indictment or conviction of the Employee for any felony or crime involving moral turpitude or dishonesty;
- (b) the Employee’s participation in any fraud against the Buyer;
- (c) the Employee’s breach of his duties to the Buyer, including, without limitation, persistent unsatisfactory performance of job duties;
- (d) the Employee’s intentional damage to any property of the Buyer;
- (e) willful conduct by the Employee that is demonstrably injurious to the Buyer, monetarily or otherwise;
- (f) breach by the Employee of any agreement with the Buyer, including the Employee’s Proprietary Information and Inventions Agreement (or any similar agreement entered into with Buyer relating to proprietary information or confidentiality); or
- (g) conduct by the Employee that the Buyer reasonably determines demonstrates gross unfitness to serve (other than due to disability).

**1.2. Code.** For purposes of this Agreement, “Code” means the Internal Revenue Code of 1986, as amended.

**1.3. Comparable Terms.** For purposes of this Agreement, an offer on “Comparable Terms” means an offer of employment from the Buyer with:

(a) an annual base salary and annual bonus target opportunity that are not materially less than the Employee’s annual base salary or annual bonus target opportunity (expressed as a percentage of the Employee’s base salary), respectively, with Intevac as of immediately prior to the Division Sale Closing Date (as defined below), and

(b) position, duties and responsibilities that are not materially diminished as compared to the Employee’s position, duties, and responsibilities with Intevac as in effect immediately prior to the Division Sale Closing Date; provided, however, that a reduction in position, duties or responsibilities solely by virtue of the Division (as defined below) being acquired and made part of a larger entity whether as a subsidiary, business unit or otherwise (as, for example, when the head of the Division remains the head of the Division’s business following an acquisition where the Division becomes part of another division of the Buyer, but is not made the head of the Buyer’s division) will not be considered a material diminution for purposes of this section.



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**1.4. Deferred Payments.** For purposes of this Agreement, the term “Deferred Payments” means any severance pay or benefits to be paid or provided to the Employee pursuant to this Agreement and any other severance payments or separation benefits, that in each case, when considered together, are considered deferred compensation under Section 409A.

**1.5. Division Sale.** For purposes of this Agreement, the term “Division Sale” means a transaction in which a buyer (the “Buyer”) purchases or otherwise acquires (i) the Intevac division in which the Employee works (the “Division”), or (ii) substantially all of the assets of the Division, and, in either event, following such purchase or acquisition, Intevac continues as a going concern (Intevac’s continuation primarily for the purpose of winding down or dissolving the Company will not be deemed to be continuation as a going concern for this purpose). The term “Buyer” as used in this Agreement will be interpreted to include any subsidiary, parent, affiliate or successor thereto, if applicable.

**1.6. Division Sale Closing Date.** For purposes of this Agreement, the term “Division Sale Closing Date” means the date of the closing of the Division Sale.

**1.7. Equity Awards.** For purposes of this Agreement, the term “Equity Awards” means the Employee’s outstanding stock options, stock appreciation rights, restricted stock units, performance shares, performance stock units and any other Company equity compensation awards, excluding any such awards issued as payment for Executive Incentive Plan (or similar incentive compensation plan) objective achievement.

**1.8. Good Reason.** For the purposes of this Agreement, the Employee’s voluntary resignation of his employment with the Buyer will be considered a termination for “Good Reason” if the Employee resigns his employment with the Buyer (i) within the time frame provided under Section 1.9(b), and (ii) following the occurrence without his consent of one or more of the following events:

- (a) a material reduction of the Employee’s then existing (post-Division Sale) annual base salary by more than 10%, unless the then-existing base salaries of similarly situated employees of the Buyer are similarly reduced;
- (b) a material reduction of the Employee’s then existing (post-Division Sale) annual bonus target opportunity, unless the then-existing annual bonus target opportunities of similarly situated employees of the Buyer are similarly reduced;
- (c) a material diminution of the Employee’s duties or responsibilities as compared to the Employee’s duties, and responsibilities with the Buyer as in effect immediately following the Division Sale Closing Date; or
- (d) a material change in the geographic location of the principal place of the Employee’s employment to a location that is more than sixty (60) miles from his principal place of employment with the Buyer as of immediately following the Division Sale Closing Date.

In order for an event to qualify as Good Reason, the Employee must not resign without first providing the Buyer with written notice of the acts or omissions constituting the grounds for Good Reason and a reasonable cure period of not less than fifteen (15) days following the date of such notice, and such grounds must not have been cured during such time. The Employee is also subject to the Certification Notice requirement set forth in Section 3.

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**1.9. Buyer Involuntary Termination.** For purposes of this Agreement, the term “Buyer Involuntary Termination” means:

- (a) the Employee’s employment with Intevac terminates on the Division Sale Closing Date, the Employee commences employment with the Buyer upon or immediately following the Division Sale, and *either* (x) the Buyer terminates the Employee’s employment with the Buyer without Cause (and not due to the Employee’s death or disability) or (y) the Employee resigns for Good Reason; and
- (b) such termination by the Buyer or resignation by the Employee from Buyer employment occurs following the Division Sale Closing Date but on or before the first to occur of (x) the three (3) month anniversary of the Division Sale Closing Date (or if there is no corresponding date, the last day of the applicable month), or (y) March 1 of the year following the year in which the Division Sale Closing Date occurs (the first to occur, the “Division Sale Termination Deadline”).

**1.10. No Offer/Non-Comparable Offer Termination.** For purposes of this Agreement, the term “No Offer/Non-Comparable Offer Termination” means that, as of the Division Sale Closing Date, the Employee:

- (a) has not been offered a position with the Buyer with Comparable Terms effective as of (or promptly following) the Division Sale Closing Date (for the avoidance of doubt, this includes a situation in which the Employee has not been offered any position with the Buyer); and
- (b) terminates his employment with Intevac as of the Division Sale Closing Date; and
- (c) has declined all offers of employment extended by the Buyer, if any (and has not indicated to the Buyer an intention to accept any such offer following the Division Sale Closing Date).

**1.11. Section 409A.** For purposes of this Agreement, the term “Section 409A” means Section 409A of the Code, and any final regulations and guidance thereunder and any applicable state law equivalent, as each may be amended or promulgated from time to time.

**2. Termination in Connection with or Following a Division Sale.** The Employee acknowledges that, upon a Division Sale, Intevac will no longer have an employment position for the Employee, and the Employee’s employment with Intevac will terminate. In the event that a Division Sale occurs and the Employee experiences *either* (i) a No Offer/Non-Comparable Offer Termination, or (ii) a Buyer Involuntary Termination, then, subject to the provisions of Section 3:

- (a) Intevac will provide the Employee with severance payments in an aggregated amount equal to twelve (12) months of the Employee’s base salary with Intevac as in effect immediately prior to the Division Sale Closing Date, paid (less payroll deductions and all required withholdings) in equal installments on Intevac’s normal payroll schedule over a period of twelve (12) months following the Division Sale Closing Date;
- (b) the Company will provide the Employee with an additional monthly payment of \$2,000 per month for twelve (12) months, paid (less payroll deductions and all required withholdings) in equal monthly installments over a period of twelve (12) months from the Division Sale Closing Date (which payments are intended to help defray the Employee’s health care costs, although the Employee is under no obligation to use the payments for such purpose);

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- (c) if the Employee's annual bonus payment, if any, for an applicable year has not been paid as of the Division Sale Closing Date, Intevac may choose, in the CEO's sole discretion, to pay Employee an amount equal to the annual bonus amount for such year, based on actual performance (but not to exceed 100% of Employee's target bonus amount for that year), that he would have received had he remained an employee of Intevac through the date such bonus payments were made, paid (less payroll deductions and all required withholdings) in a lump sum at the same time that annual bonuses for that year are paid to other executives remaining with Intevac, but in all cases, no later than March 15 of the year following the year to which such annual bonus relates; and
  - (d) all Equity Awards held by the Employee shall have their vesting accelerated such that they are fully vested and, if applicable, exercisable; provided, however, that, subject to Section 6.2 and Section 7.3, all restricted stock units that vest as a result of this Section 2 will be paid and settled within 60 days following the accelerated vesting date and in all cases no later than March 15 of the year following the year in which the Division Sale Closing Date occurs.

**3. Conditions to Receipt of Severance.** The following are conditions to the Employee receiving payments and benefits under this Agreement:

- (a) The Employee must sign and allow to become effective and irrevocable a general release of claims in favor of Intevac (which may include a requirement that the Employee not disparage Intevac, non-solicit provisions and other standard terms and conditions) in a form acceptable to Intevac (the "Release") and such Release must become effective and irrevocable no later than sixty (60) days following the Division Sale Closing Date (such deadline, the "Release Deadline"). If the Release does not become effective by the Release Deadline, or if the Employee does not comply with the terms of the Release, the Employee will forfeit any rights to severance payments or benefits under this Agreement. In no event will severance payments or benefits be paid or provided until the Release actually becomes effective. As additional consideration for executing the Release, if the Release becomes effective by the Release Deadline, the Company will pay the Buyer a lump sum payment of \$100 (less payroll deductions and all required withholdings) within sixty (60) days following the Division Sale, subject to the timing restrictions set forth below.<sup>1</sup>
- (b) If the Employee's entitlement to severance payments and benefits arises as a result of a Buyer Involuntary Termination, the Employee must complete and sign a Certification Notice, in the form attached hereto as Exhibit A, and deliver that completed Certification Notice to Intevac within two (2) business days following the Employee's date of termination from the Buyer (the "Certification Notice Deadline"). If the completed and executed Certification Notice is not delivered to Intevac by the Certification Notice Deadline, the Employee will forfeit any rights to severance payments or benefits under this Agreement. In no event will severance payments or benefits be paid or provided until the completed and executed Certification Notice is delivered to the Company.
- (c) For the avoidance of doubt, if a Division Sale occurs and the Employee (A) is offered a position with the Buyer with Comparable Terms effective as of (or promptly following) the Division Sale Closing Date and (B) does not accept such position with the Buyer, then even if the Employee terminates his employment with Intevac as of the Division Sale Closing Date, the Employee will not be eligible to receive any benefits pursuant to Section 2.

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(d) For the further avoidance of doubt, in the event of a Division Sale where the Employee accepts an offer of employment with the Buyer to commence upon or immediately following the Division Sale, any unvested portion of the Employee's Equity Awards outstanding as of immediately prior to the Division Sale will remain outstanding until the first to occur of:

- (i) the date that is three (3) months and one (1) day following the Division Sale Closing Date,
- (ii) March 2 of the year following the year in which the Division Sale Closing Date occurs, or
- (iii) immediately following the first day that the Employee ceases to be eligible for severance benefits under Section 2 (the first to occur, the "Division Sale Equity Deadline"),

in each case such that any acceleration benefits can be provided if a qualifying termination from the Buyer's employment under Section 2 occurs following the Division Sale (provided that in no event will any Equity Award remain outstanding beyond the Equity Award's maximum term or expiration date). If no qualifying termination from the Buyer under Section 2 occurs on or before the Division Sale Equity Deadline, any unvested portion of the Employee's Equity Awards automatically will be forfeited without having vested. This Agreement will serve as an amendment to any agreements governing the Equity Awards now in existence or hereafter entered into unless specifically excluded therein.

**4. Forfeiture / Recovery of Severance.** If the Employee becomes eligible to receive benefits under Section 2, and then, within twelve (12) months following the Division Sale Closing Date, the Employee commences (or re-commences, as applicable) employment with the Buyer<sup>2</sup>, the Employee will cease receiving any further payments or benefits under this Agreement and, to the extent permitted under applicable law, will be required to repay to the Company the full cash value of any payments or benefits he received to date under the Agreement. For purposes of calculating the benefit of the acceleration of Equity Awards, such value will equal the product obtained by multiplying the number of shares subject to the Equity Awards that accelerated, by the closing price per share of the Company's Common Stock on the date of acceleration, less the exercise price paid (if any).

**5. Limitation on Payments in Response to Applicable Tax Law.**

**5.1.** If any payment or benefit the Employee would receive from Intevac under this Agreement or otherwise in connection with a Division Sale or otherwise (a "Payment") would:

- (a) constitute a "parachute payment" within the meaning of Section 280G of the Code, and
- (b) thus, but for paragraph, be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"),

then such Payment shall be adjusted to equal whichever of these amounts:

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- (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax (the “Reduced Amount”), or
  - (y) the entire Payment,

that, after taking into account all applicable federal, state and local employment taxes, income taxes and the Excise Tax (all computed at the highest applicable marginal rate), results in the Employee’s receipt, on the after-tax basis, of the greater dollar amount of the Payment, notwithstanding that all or some portion of the Payment may be subject to the Excise Tax.

**5.2.** If a reduction in a Payment constituting a “parachute payment” to the Reduced Amount is necessary, such reduction shall occur in the following order:

- (a) first, any cash payments shall be reduced in reverse chronological order (that is, the cash payment owed on the latest date following the occurrence of the event triggering the Excise Tax will be the first cash payment to be reduced);
- (b) next, any equity awards that were granted “contingent on a change in ownership or control” within the meaning of Section 280G of the Code shall be reduced (if two or more equity awards are granted on the same date, each equity award will be reduced on a pro-rata basis);
- (c) next, any accelerated vesting of other equity awards shall be reduced in the reverse order of date of grant (i.e., the vesting of the most recently granted equity awards will be reduced first, and if more than one equity award was granted to the Employee on the same date, all such awards will have their acceleration of vesting reduced pro rata); and
- (d) finally, reduction of other employee benefits paid or provided to the Employee in reverse chronological order (i.e., the benefit owed on the latest date following the occurrence of the event triggering the excise tax will be the first benefit to be reduced).

In no event will the Employee have any discretion with respect to the ordering of payment reductions.

**5.3.** The Company or an accounting firm engaged by the Company, as determined in the sole discretion of the Company shall perform the calculations described above (the Company or accounting firm performing such calculations, the “Calculation Team”). The Company shall bear all expenses with respect to the determinations required to be made hereunder.

**5.4.** If requested, any calculations required to be made hereunder, together with detailed supporting documentation, will be provided to the Employee, and the Company if it is not acting as the Calculation Team, within fifteen (15) calendar days after the date on which the Employee’s right to a Payment is triggered. Any good faith determinations of the Calculation Team made hereunder shall be final, binding and conclusive upon the Employee and the Company.

**6. Additional Timing of Payment Considerations as a Result of Applicable Tax Law.**

**6.1.** As noted above, no severance payments or benefits will be paid or provided before the Release becomes effective or before the Certification Notice, if applicable, has been delivered. Except as may be required under Section 6.2 or Section 7.3 below, any installment payments under Section 2(a) or Section 2(b) or equity vesting under Section 2(d) due to the Employee but delayed as a result of this requirement will be paid or provided as soon as practicable upon or after the effectiveness of the Release

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or, if later, the delivery of the Certification Notice, if one is required, and in no event will any such payments or benefits be paid or provided later than the later of the Release Deadline and, if applicable, the Certification Notice Deadline. Any remaining installments of severance payments or benefits to which the Employee is entitled will be paid thereafter as provided under this Agreement.

**6.2.** In the event that:

- (a) the Release Deadline falls in the calendar year following the calendar year in which the Division Sale Closing Date occurs or
- (b) the Certification Notice Deadline is later than the Release Deadline, and the Certification Notice Deadline falls in the calendar year following the calendar year in which the termination from the Buyer occurs,

then, in either such event, all severance payments or benefits due to the Employee will be paid or provided on the later of:

- (i) the Release Deadline or the Certification Notice Deadline (if applicable), whichever is later,
- (ii) such time as required by the payment schedule applicable to each severance payment or benefit, or
- (iii) such time as required by Section 7.3;

provided, however, that any acceleration of vesting of stock options and restricted stock will be provided on the Release effectiveness date or, if later and applicable, the date the Certification Notice is delivered. Except as required by Section 7.3, any installment or lump-sum payments or benefits that would have been made to the Employee prior to the Release Deadline or Certification Notice Deadline, as applicable, but for the Release Deadline or Certification Notice Deadline payment requirement of the preceding sentence will be paid to the Employee on the later of the Release Deadline or the Certification Notice Deadline, and the remaining payments, if any, will be made as provided in this Agreement. In no event will the Employee have discretion to determine the taxable year of payment of any severance payment or benefit.

#### **7. Section 409A**

**7.1.** Notwithstanding anything to the contrary in this Agreement, no Deferred Payments will be paid or otherwise provided until the Employee has a "separation from service" from Intevac within the meaning of Section 409A. Similarly, no severance payment or benefit payable to the Employee, if any, pursuant to this Agreement that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be payable until the Employee has a "separation from service" from Intevac within the meaning of Section 409A. In no event will the Employee have discretion to determine the taxable year of payment of any Deferred Payments.

**7.2.** It is intended that none of the payments or benefits that may be provided under this Agreement will constitute Deferred Payments, but rather will be exempt from Section 409A as a payment that would fall within the "short-term deferral period" as described in Section 7.4 below or a payment or benefit resulting from an involuntary separation from service as described in Section 7.5 below.

7.3. Notwithstanding anything to the contrary in this Agreement, if the Employee is a “specified employee” within the meaning of Section 409A at the time of the Employee’s separation from service from Intevac (other than due to death), then the Deferred Payments, if any, that are payable within the first six (6) months following the Employee’s separation from service from Intevac, will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of the Employee’s separation from service from Intevac. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if the Employee dies following the Employee’s separation from service from Intevac, but before the six (6) month anniversary of such separation from service, then any payments delayed in accordance with this Section 7.3 will be payable in a lump sum as soon as administratively practicable after the date of the Employee’s death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Agreement is intended to constitute a separate payment under Section 1.409A-2(b)(2) of the Treasury Regulations.

7.4. Any amount paid or benefit provided under this Agreement that satisfies the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute a Deferred Payment for purposes of this Agreement.

7.5. Any amount paid or benefit provided under this Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit (as defined below) will not constitute a Deferred Payment for purposes of this Agreement. Any payments or benefits due under Section 2 of this Agreement will be paid as provided under this Agreement, but in no event later than the last day of the second taxable year of the Employee following the Employee’s taxable year in which the Employee’s separation from service from the Company occurs.

7.6. The foregoing provisions are intended to comply with or be exempt from the requirements of Section 409A so that none of the payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be exempt or so comply. The Company and the Employee agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition before actual payment to the Employee under Section 409A. In no event will the Company or the Buyer reimburse the Employee for any taxes that may be imposed on the Employee as a result of Section 409A.

## **8. Miscellaneous Provisions**

**8.1. Equity Acknowledgement.** In the event the Division sale, or any other transaction immediately after which Intevac remains a going concern, constitutes a “Change in Control” under the Company’s 2012 Equity Incentive Plan (the “2012 Plan”) or 2004 Equity Incentive Plan (the “2004 Plan”), Employee acknowledges and agrees that Intevac may, in its discretion and without Employee’s consent, assume or substitute for Employee’s then-outstanding equity awards under such plans in accordance with Section 15(c) of the 2012 Plan and/or Section 13(c) of the 2004 Plan, as applicable, with the Company deemed the “successor corporation” in the relevant transaction for such purposes.

**8.2. Severability.** Whenever possible, each provision of this Agreement will be interpreted in such a manner as to be effective and valid under applicable law. If, however, any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, and such invalid, illegal or unenforceable provision will be reformed, construed and enforced in such jurisdiction so as to render it valid, legal and enforceable consistent with the intent of the parties insofar as Possible.

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**8.3. Entire Agreement.** This Agreement constitutes the entire and exclusive agreement between the Employee and the Company regarding this subject matter, and it supersedes any prior agreement, promise, representation, or statement, written or otherwise, between the Employee and the Company regarding this subject matter. The Employee and the Company enter into this Agreement without reliance on any promise, representation, statement or agreement other than those expressly contained or incorporated herein, and this Agreement cannot be modified or amended except in writing signed by the Employee and a duly authorized officer of the Company.

**8.4. Successors and Assigns.** This Agreement is intended to bind and inure to the benefit of, and be enforceable by, the Employee, the Company and their respective successors, assigns, heirs, executors and administrators, except that the Employee may not assign any of his or her rights or duties hereunder without the written consent of the Company, which shall not be withheld unreasonably. The term "Company" or "Intevac" as used in this Agreement will be interpreted to include any subsidiary, parent, affiliate or successor thereto, if applicable, but will not include the Buyer unless the Buyer has contractually assumed this Agreement from the Company.

**8.5. Governing Law.** All questions concerning the construction, validity and interpretation of this Agreement will be governed by the law of the State of California (with the exception of its conflict of laws provisions) as applied to contracts made and to be performed entirely within California.

**8.6. Notice.** Notices and all other communications contemplated by this Agreement will be in writing. Notices to the Employee will be sent to the e-mail address or addressed to the Employee at the home address, in either case which the Employee most recently communicated to the Company in writing. Notices to the Company must be delivered to the Vice President, Global Human Resources of the Company and notices to the Buyer must be delivered to the Buyer's legal or human resource departments.

**8.7. Breach.** Employee acknowledges and agrees that any breach by Employee of this Agreement, or of any provision of the Release (once effective), shall entitle the Company immediately to recover and/or cease providing the consideration provided to Employee under this Agreement and to obtain damages.

*[Remainder of Page Intentionally Left Blank]*



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IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by their duly authorized officers, as of the day and year indicated below.

Date: March 2, 2018

/s/ Timothy Justyn

Timothy Justyn

/s/ Kimberly Burk

Kimberly Burk

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Senior Vice President of Global Human Resources

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EXHIBIT A

CERTIFICATION NOTICE

I, [NAME], hereby certify that my employment with the Buyer (as such term is defined in the Division Sale Agreement with Intevac, Inc. dated [DATE] (the "Division Sale Agreement") terminated effective as of the following date: \_\_\_\_\_, and further, such termination was (please check one):

for reasons other than for Cause (as such term is defined in the Division Sale Agreement) and was not by reason of my disability; or

for Good Reason (as such term is defined in the Division Sale Agreement), in which case I certify that I provided the Buyer with notice and an opportunity to cure as required by the terms of the Division Sale Agreement.

I understand that if I re-commence employment with the Buyer within twelve (12) months following the Division Sale Closing Date (as such term is defined in the Division Sale Agreement), I will not receive any additional benefits under the Division Sale Agreement and will be required to repay to the Company the full cash value of any payments or benefits I received under the Division Sale Agreement, to the extent permitted by applicable law.

Date: \_\_\_\_\_

**SEVERANCE AGREEMENT AND RELEASE OF CLAIMS**

Andres Brugal (hereafter referred to as “the Employee”) and Intevac, Inc. (hereafter referred to as “Intevac” or “the Company”) mutually desire to define their rights and liabilities with respect to one another in connection with the termination of the Employee’s employment with Intevac and/or any of its parent, subsidiary and affiliated entities on **February 16, 2018**. Accordingly, the parties agree as follows:

1. Severance benefits. In exchange for the consideration described herein, Intevac hereby agrees to pay to the Employee the gross sum of \$147,500, less deductions required by law, within 15 days of the date on which the Employee returns the signed original of this Severance Agreement and Release of Claims (hereafter referred to as “this Agreement”) to the Company.

2. Release of claims by Employee. In exchange for the consideration described below, the Employee hereby releases and discharges fully Intevac and its parent, subsidiary and affiliated entities, and the current and former shareholders, directors, officers, employees, agents and representatives of Intevac and its parent, subsidiary and affiliated entities (which entities and persons, together with Intevac, are hereafter referred to collectively as “the Released Parties”), from any and all claims, liabilities, charges and causes of action of any kind whatsoever which the Employee holds or may hold against them as of the date on which he or she signs this Agreement, including, but not limited to:

- (a) any and all rights and claims relating to or in any manner arising from the Employee’s employment or the termination of his or her employment;
- (b) any and all rights and claims arising under the California Fair Employment and Housing Act (Government Code section 12900 et seq.) and similar laws of any jurisdiction;
- (c) any and all claims arising under the Civil Rights Act of 1964 (42 U.S.C. 2000, et seq.) and similar laws of any jurisdiction;
- (d) any and all claims arising under the Americans with Disabilities Act (29 U.S.C. 706 et seq.) and similar laws of any jurisdiction;
- (e) any and all rights and claims arising the Age Discrimination in Employment Act of 1967 (29 U.S.C. 621 et seq.) and similar laws of any jurisdiction;
- (f) any and all rights and claims arising under the Family and Medical Leave Act (29 U.S.C. section 2601 et seq.), the California Family Rights Act (Government Code section 12945.2) and similar laws of any jurisdiction;
- (g) any and all claims for violation of the Fair Labor Standards Act California Labor Code, California Wage Orders, and similar laws of any jurisdiction; and

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- (h) any and all claims for breach of contract, breach of the covenant of good faith and fair dealing, retaliation, discrimination, harassment, invasion of privacy, infliction of emotional distress, defamation and misrepresentation.

This Agreement shall not apply, however, to any rights and claims not subject to waiver by law, including, but not limited to, claims for unemployment insurance benefits, claims for workers' compensation benefits and rights to indemnity under applicable law.

3. Scope of release. The Employee understands and intends that the rights, claims and causes of action released herein include all legal, contractual, statutory and equitable rights, claims and causes of action and held by him or her against the Released Parties or any of them (except those rights, claims and causes of action not subject to waiver by law), regardless of whether those rights, claims, or causes of action are presently existing, known or anticipated.

4. Due consideration; right to rescind in part. The Employee represents and agrees that:

- (a) he has had the opportunity to consider this Agreement for at least 21 days before signing it;
- (b) he has had a reasonable opportunity to consult an attorney before signing this Agreement;
- (c) he has read this Agreement in full and understands all of the terms and conditions set forth herein;
- (d) he knowingly and voluntarily agrees to all of the terms and conditions set forth herein and intends to be legally bound by them;
- (e) this Agreement does not preclude him or her from filing claims of discrimination, harassment or retaliation with the Equal Employment Opportunity Commission or similar government agencies, provided that he or she may not personally recover any financial compensation in connection with such claims;
- (f) this Agreement does not apply to claims arising after the date on which he or she signs it;
- (g) he or she may rescind this Agreement for seven days after signing it; and
- (h) this Agreement will not become effective or enforceable until eight days after he or she has signed it.

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5. New or different facts; application of release to unknown claims. The Employee acknowledges that he or she may hereafter discover facts different from or in addition to those now known or believed to be true regarding the subject matter of the Agreement, but:

(a) agrees that this Agreement shall remain in full force and effect notwithstanding the existence or discovery of any such new or different facts; and

(b) hereby waives all rights to which he or she may be entitled pursuant to California Civil Code section 1542, which provides:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

6. No existing claims; covenant not to file claims. The Employee represents that he or she has not filed any complaints, claims, grievances or actions against any of the Released Parties with any state, federal or local court or agency and covenants not to file any complaints, claims, grievances or actions (other than those not subject to waiver by law) against any of the Released Parties herein at any time hereafter based on events occurring on or before the date on which he or she signs this Agreement.

7. Payment of wages and benefits. The Employee acknowledges and agrees that Intevac paid to him or her by the date on which the Employee's employment terminated all wages, including accrued vacation, earned by him or her through that date.

8. Non-disparagement. The Employee agrees not to defame, disparage or criticize any of the Released Parties at any time.

9. Confidentiality of Agreement. The Employee agrees to not to disclose the existence of this Agreement, the terms of the Agreement or any information relating to this Agreement to anyone other than his or her spouse (if any), his or her attorney(s), his or her tax preparer and any party to whom disclosure is necessary in order to comply with the law.

10. Non-solicitation of employees and contractors. During the term of the Employee's employment with Intevac or any of its parent, subsidiary or affiliated entities (hereafter referred to as "the Intevac Companies") and at all times thereafter, the Employee shall not use any of the Intevac Companies' Confidential Information to solicit any employee or contractor of the Intevac Companies to discontinue working for any of the Intevac Companies or to provide service to any other person or entity in competition with the Intevac Companies without Intevac's written consent. As used in this Agreement, the term "Confidential Information" shall mean information that (a) derives economic value from not being known to the general public or others who can obtain economic value from its disclosure or use and (b) is the subject of reasonable efforts on the part of the Intevac Companies to maintain its secrecy.

11. Non-solicitation of customers. During the Employee's employment with the Intevac Companies and at all times thereafter, the Employee shall not utilize any Confidential Information of the Intevac Companies to solicit any customer of the Intevac Companies to (a) purchase goods or services from any person or entity whose goods or services could be used as substitutes for those of the Intevac Companies or (b) discontinue purchasing goods and/or services from the Intevac Companies.

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12. Preservation of Confidential Information. During and after the Employee's employment with the Intevac Companies, the Employee shall not use any of the Intevac Companies' Confidential Information for any purpose other than to fulfill his or her duties to the Intevac Companies and shall not disclose any such information to any third party without the express written consent of the Intevac Companies. Notwithstanding any other provision of this Agreement, the Employee may disclose Confidential Information to (a) governmental entities or an attorney for the sole purpose of reporting or assisting in the investigation of a suspected violation of law, or (b) in a document filed in a lawsuit if the filing is made under seal and protected from public disclosure. Nothing in this Agreement is intended to conflict with 18 U.S.C. 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. 1833(b).

13. Return of Company property. The Employee shall return to Intevac on the date on which his or her employment terminates, or at such other time as the Company may request, all property of the Intevac Companies in the Employee's possession, custody or control. To the extent that the Employee possesses on computers or other equipment owned by the Employee any property, documents or data in electronic form belonging to the Company, the Employee will provide the Company with a written description of such property, documents or data and will preserve (and not delete) such property, documents or data until receiving direction from the Company with respect to the manner in which it should be removed from the Employee's personal equipment and returned to the Company. Notwithstanding any other provisions in this Agreement, Intevac shall not be required to provide the Employee with the consideration described in section 1 of this Agreement until the Employee has returned to it all Company property in his or her possession, custody or control.

14. Successors and assigns. Each party represents that it has not transferred to any person or entity any of the rights released or transferred through this Agreement. The parties agree that this Agreement shall be binding upon the future successors and assignees of Intevac, if any. The Employee may not delegate or assign any of his or obligations pursuant to this Agreement.

15. Severability. If a court of competent jurisdiction declares or determines that any provision of this Agreement is invalid, illegal or unenforceable, the invalid, illegal or unenforceable provision(s) shall be deemed not a part of the Agreement, but the remaining provisions shall continue in full force and effect. If a court declares or determines that any of the release provisions set forth in section 2 above are invalid, illegal or unenforceable, however, Intevac shall have the option of declaring this Agreement null and void and, in such event, the Employee shall return to Intevac all consideration provided to the Employee to date pursuant to this Agreement.

16. Further Assurances. The Employee agrees to perform such actions, and to execute such additional documents, if any, as may be necessary or appropriate to effectuate the intent of this Agreement.

17. Costs and fees. Each party shall bear any costs and fees it may incur in connection with this Agreement and neither shall be entitled to recover such costs or fees from the other.

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18. Remedy for breach. Each party, upon breach of this agreement by the other, shall have the right to seek all necessary and proper relief, including, but not limited to, specific performance, from a court of competent jurisdiction and the party prevailing in such a suit shall be entitled to recover reasonable costs and attorney fees.

19. Governing law. The laws of the State of California shall govern the construction and enforcement of this Agreement, except that the Agreement shall be interpreted as through drafted jointly by the Employee and Intevac.

20. Entire agreement; modification. This Agreement sets forth the entire agreement between the parties and supersedes all prior agreements or understandings, both written and oral, between the parties regarding the subject matter of this Agreement. The parties may modify this Agreement only through a writing signed by each.

21. No reliance on representations by other party or other party's representatives. The parties agree and represent that they have not relied and do not rely upon any representation or statement regarding the subject matter or effect of this Agreement made by any other party to this Agreement or any party's agents, attorneys or representatives.

Date: February 15, 2018

/s/ Andres Brugal  
Andres Brugal

Date: February 15, 2018

By: /s/ Kimberly Burk  
Senior Vice President of Global Human Resources

I, Wendell Blonigan certify that:

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

Date: May 1, 2018

/s/ WENDELL T. BLONIGAN

Wendell T. Blonigan

President, Chief Executive Officer and Director



I, James Moniz certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Intevac, Inc.;

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

Date: May 1, 2018

/s/ JAMES MONIZ

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

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

I, Wendell Blonigan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Intevac, Inc. on Form 10-Q for the quarterly period ended March 31, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Intevac, Inc.

Date: May 1, 2018

/s/ WENDELL T. BLONIGAN

Wendell T. Blonigan  
President, Chief Executive Officer and Director

I, James Moniz, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Intevac, Inc. on Form 10-Q for the quarterly period ended March 31, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of Intevac, Inc.

Date: May 1, 2018

/s/ JAMES MONIZ

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

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

