

INTEVAC INC  
Form DEF 14A  
April 16, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
(Rule 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Intevac, Inc.**

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Intevac, Inc., a California corporation, which will be held May 15, 2007, at 9:00 a.m., local time, at our headquarters, 3560 Bassett Street, Santa Clara, California 95054.

At the Annual Meeting, you will be asked to consider and vote upon the following proposals: (i) to elect six (6) directors of Intevac, (ii) to approve the reincorporation of the Company from California to Delaware by means of a merger with and into a wholly owned Delaware subsidiary, (iii) to approve an amendment to increase the maximum number of shares of Common Stock authorized for issuance under the Company's 2004 Equity Incentive Plan by 900,000 shares, and (iv) to ratify the appointment of Grant Thornton LLP as independent accountants of Intevac for the fiscal year ending December 31, 2007.

The enclosed Proxy Statement more fully describes the details of the business to be conducted at the Annual Meeting. After careful consideration, our Board of Directors has unanimously approved the proposals and recommends that you vote **FOR** each proposal.

After reading the Proxy Statement, please mark, date, sign and return the enclosed proxy card in the accompanying reply envelope to ensure receipt by our Transfer Agent no later than May 11, 2007. Any shareholder attending the Annual Meeting may vote in person even if he or she has returned a proxy. **YOUR SHARES CANNOT BE VOTED UNLESS YOU SIGN, DATE AND RETURN THE ENCLOSED PROXY OR ATTEND THE ANNUAL MEETING IN PERSON.**

A copy of Intevac's 2006 Annual Report has been mailed with this Proxy Statement to all shareholders entitled to notice of and to vote at the Annual Meeting.

We look forward to seeing you at the Annual Meeting. Please notify Joanne Diener at (408) 496-2242 if you plan to attend.

Sincerely yours,

Kevin Fairbairn  
*President and Chief Executive Officer*

Santa Clara, California  
April 16, 2007

**IMPORTANT**

**Whether or not you plan to attend the meeting, please mark, date and sign the enclosed proxy and return it at your earliest convenience in the enclosed postage-prepaid return envelope.**

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

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
To Be Held May 15, 2007**

TO OUR SHAREHOLDERS:

You are cordially invited to attend the Annual Meeting of Shareholders of Intevac, Inc., a California corporation, to be held May 15, 2007 at 9:00 a.m., local time, at our headquarters, 3560 Bassett Street, Santa Clara, California 95054, for the following purposes:

1. To elect directors to serve for the ensuing year or until their respective successors are duly elected and qualified. The nominees are Norman H. Pond, Kevin Fairbairn, David S. Dury, Stanley J. Hill, Robert Lemos, and Ping Yang.
2. To approve the reincorporation of the Company from California to Delaware by means of a merger with and into a wholly owned Delaware subsidiary.
3. To approve an amendment to the 2004 Equity Incentive Plan to increase the number of shares reserved for issuance thereunder by 900,000.
4. To ratify the appointment of Grant Thornton LLP as independent accountants of Intevac for the fiscal year ending December 31, 2007.
5. To transact such other business as may properly come before the meeting or any adjournment thereof.

The foregoing items of business are more fully described in the Proxy Statement that accompanies this Notice.

Only shareholders of record at the close of business March 22, 2007 are entitled to notice of and to vote at the Annual Meeting and at any continuation or adjournment thereof.

All shareholders are cordially invited and encouraged to attend the Annual Meeting. In any event, to ensure your representation at the meeting, please carefully read the accompanying Proxy Statement, which describes the matters to be voted on at the Annual Meeting, and sign, date and return the enclosed proxy card in the reply envelope provided. Should you receive more than one proxy because your shares are registered in different names and addresses, each proxy should be returned to ensure that all your shares will be voted. If you attend the Annual Meeting and vote by ballot, your proxy will be revoked automatically, and only your vote at the Annual Meeting will be counted. The prompt return of your proxy card will assist us in preparing for the Annual Meeting.

We look forward to seeing you at the Annual Meeting. Please notify Joanne Diener at (408) 496-2242 if you plan to attend.

**BY ORDER OF THE BOARD OF DIRECTORS**

CHARLES B. EDDY III

*Vice President, Finance and Administration,*

*Chief Financial Officer, Treasurer and Secretary*

Santa Clara, California

April 16, 2007

**ALL SHAREHOLDERS ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. IN ANY EVENT, TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, YOU ARE URGED TO VOTE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN THE POSTAGE-PREPAID ENVELOPE PROVIDED.**

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**INTEVAC, INC.**

**PROXY STATEMENT**

**FOR THE ANNUAL MEETING OF SHAREHOLDERS OF  
To Be Held May 15, 2007**

**GENERAL**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Intevac, Inc., a California corporation, of proxies to be voted at the Annual Meeting of Shareholders to be held May 15, 2007, or at any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. Shareholders of record as of March 22, 2007 will be entitled to vote at the Annual Meeting. The Annual Meeting will be held at 9:00 a.m., local time, at our headquarters, 3560 Bassett Street, Santa Clara, California 95054.

It is anticipated that this Proxy Statement and the enclosed proxy card will be first mailed to shareholders on or about April 16, 2007.

**VOTING RIGHTS**

The close of business on March 22, 2007 was the record date for shareholders entitled to notice of and to vote at the Annual Meeting and any adjournments thereof. At the record date, we had 21,382,828 shares of our Common Stock outstanding and entitled to vote at the Annual Meeting, held by 122 shareholders of record. We believe that approximately 7,600 beneficial owners hold shares through brokers, fiduciaries and nominees. Holders of Common Stock are entitled to one vote for each share of Common Stock they hold.

If any shareholder is unable to attend the Annual Meeting, the shareholder may still vote by proxy. The enclosed proxy is solicited by our Board of Directors, and, when the proxy card is returned properly completed, it will be voted as directed by the shareholder on the proxy card. Shareholders are urged to specify their choices on the enclosed proxy card. If a proxy card is signed and returned without choices specified, in the absence of contrary instructions, the shares of Common Stock represented by the proxy will be voted FOR Proposals 1, 2, 3 and 4 and will be voted in the proxy holders' discretion as to other matters that may properly come before the Annual Meeting.

**QUORUM; ABSTENTIONS; BROKER NON-VOTES**

The presence at the Annual Meeting, either in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock entitled to vote shall constitute a quorum for the transaction of business. While there is no definitive statutory or case law authority in California as to the proper treatment of abstentions and broker non-votes, we intend to include abstentions and broker non-votes as present or represented for purposes of establishing a quorum for the transaction of business, but to exclude abstentions and broker non-votes from the calculation of shares voting on any matter except in the case of our reincorporation, in which abstentions and broker non-votes will be deemed to be votes cast against the reincorporation.

**REVOCABILITY OF PROXIES**

Any person giving a proxy has the power to revoke it at any time before its exercise. A proxy may be revoked by filing with the Secretary of Intevac an instrument of revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person.





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Intevac will bear the cost of soliciting proxies. Copies of solicitation material will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others to forward to the beneficial owners. We may reimburse such persons for their costs of forwarding the solicitation material to beneficial owners. The original solicitation of proxies by mail may be supplemented by solicitation by telephone, telegram or other means by directors, officers, employees or agents of Intevac. No additional compensation will be paid to these individuals for these services, although they may be reimbursed for reasonable out-of-pocket expenses in connection with such solicitation. We have retained The Altman Group to aid in the solicitation of proxies from certain brokers, bank nominees and other institutional owners for an estimated fee of \$8,000 plus reasonable out-of-pocket expenses.

**The Annual Report of Intevac for the fiscal year ended December 31, 2006 has been mailed concurrently with the mailing of this Notice of Annual Meeting and Proxy Statement to all shareholders entitled to notice of and to vote at the Annual Meeting. The Annual Report is not incorporated into this Proxy Statement and is not considered proxy-soliciting material.**

**PROPOSAL NO. 1:****ELECTION OF DIRECTORS**

At the Annual Meeting, six directors (constituting the entire board) are to be elected to serve until the next Annual Meeting of Shareholders and until a successor for each such director is elected and qualified, or until the death, resignation or removal of such director. The six candidates receiving the highest number of the affirmative votes of the shares entitled to vote at the Annual Meeting will be elected directors of Intevac.

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

**Nominees**

Set forth below is information regarding the nominees to the Board of Directors.

<b>Name of Nominee</b>	<b>Position(s) with Intevac</b>	<b>Age</b>
Norman H. Pond	Chairman of the Board	68
Kevin Fairbairn	President and Chief Executive Officer	53
David S. Dury	Director	58
Stanley J. Hill	Director	65
Robert Lemos	Director	66
Ping Yang	Director	54

**Business Experience of Nominees for Election as Directors**

*Mr. Pond* is a founder of Intevac and has served as Chairman of the Board since February 1991. Mr. Pond served as President and Chief Executive Officer from February 1991 until July 2000 and again from September 2001 through January 2002. Mr. Pond holds a BS in physics from the University of Missouri at Rolla and an MS in physics from the University of California at Los Angeles.

*Mr. Fairbairn* joined Intevac as President and Chief Executive Officer in January 2002 and was appointed a director in February 2002. Before joining Intevac, Mr. Fairbairn was employed by Applied Materials from July

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1985 to January 2002, most recently as Vice-President and General Manager of the Conductor Etch Organization with responsibility for the Silicon and Metal Etch Divisions. From 1996 to 1999, Mr. Fairbairn was General Manager of Applied's Plasma Enhanced Chemical Vapor Deposition Business Unit and from 1993 to 1996, he was General Manager of Applied's Plasma Silane CVD Product Business Unit. Mr. Fairbairn holds an MA in engineering sciences from Cambridge University.

*Mr. Dury* has served as a director of Intevac since July 2002. Mr. Dury is a co-founder of Mentor Capital Group, a venture capital firm formed in July 2000. From 1996 to 2000, Mr. Dury served as Senior Vice-President and Chief Financial Officer of Aspect Development, a software development firm. Mr. Dury holds a BA in psychology from Duke University and an MBA from Cornell University. He is also a director of Phoenix Technologies Ltd.

*Mr. Hill* was appointed as a director of Intevac in March 2004. Mr. Hill joined Kaiser Aerospace and Electronics Corporation, a privately held manufacturer of electronics and electro-optical systems, in 1969 and served as Chief Executive Officer and Chairman of both Kaiser and K Systems, Inc., Kaiser's parent company, from 1997 until his retirement in 2000. Prior to his appointment as Chief Executive Officer, Mr. Hill served in a number of executive positions at Kaiser. Mr. Hill holds a BS in mechanical engineering from the University of Maine and a Master of engineering from the University of Connecticut and has completed post-graduate studies at the University of Santa Clara business school. He is also a director of First Aviation Services, Inc.

*Mr. Lemos* has served as a director of Intevac since August 2002. Mr. Lemos retired from Varian Associates, Inc. in 1999 after 23 years, including serving as Vice-President and Chief Financial Officer from 1988 to 1999. Mr. Lemos has a BS in business from the University of San Francisco, a JD in law from Hastings College and an LLM in law from New York University.

*Dr. Yang* was appointed as a director of Intevac in March 2006. Dr. Yang was employed by Taiwan Semiconductor Manufacturing Company beginning in 1997 and served as Vice-President of Research and Development from 1999 until 2005. Prior to joining TSMC, Dr. Yang worked at Texas Instruments from 1980 to 1997 where he was Director of Device and Design Flow. Dr. Yang is currently an independent consultant. Dr. Yang holds a BS in physics from National Taiwan University, and an MS and a PhD in electrical engineering from the University of Illinois. He is also a director of Credence and Apache Design Solutions.

## **Board Meetings and Committees**

The Board of Directors held five meetings during fiscal 2006. All members of the Board of Directors during fiscal 2006 attended at least seventy-five percent of the aggregate of the total number of meetings of the Board of Directors held during the fiscal year and the total number of meetings held by all committees of the Board on which each such director served (based on the time that each member served on the Board of Directors and the committees). There are no family relationships among executive officers or directors of Intevac. The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating and Governance Committee.

### ***Audit Committee***

The Audit Committee of the Board of Directors held six meetings during fiscal 2006. The Audit Committee, which during 2006 was comprised of Mr. Dury, Mr. Hill and Mr. Lemos, is responsible for overseeing our accounting and financial reporting processes, overseeing the audits of our financial statements and assisting the Board of Directors in oversight and monitoring of (i) the integrity of the financial statements of Intevac, (ii) the compliance by Intevac with legal and regulatory requirements, (iii) the qualifications, independence and performance of Intevac's external auditors and (iv) Intevac's internal accounting and financial controls. Each member of the Audit Committee is independent as defined in the listing standards of The Nasdaq Stock Market. The Board has also determined that each member of the

committee is an audit committee financial expert as designated in Item 401 of Regulation S- K. The Audit Committee has adopted a written charter approved by the Board of Directors, which is available on our website at [www.intevac.com](http://www.intevac.com).

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***Compensation Committee***

The Compensation Committee of the Board of Directors held seven meetings during fiscal 2006. The Compensation Committee, which during 2006 was comprised of Mr. Lemos, Dr. Lambeth (until his resignation from the Board in April 2006), Mr. Money and Dr. Yang, has responsibility for the compensation of Intevac's executive officers and employees, including approving executive officer compensation plans, stock option grants, succession plans and compensation strategy for Intevac's employees. The Board has determined that Mr. Lemos, Mr. Money and Dr. Yang are independent as defined in the listing standards of The Nasdaq Stock Market. The Compensation Committee has adopted a written charter approved by the Board of Directors, which is available on our website at [www.intevac.com](http://www.intevac.com). Please see Compensation Discussion and Analysis for a description of our processes and procedures for the consideration and determination of executive and director compensation.

***Nominating and Governance Committee***

The Nominating and Governance Committee of the Board of Directors held three meetings during fiscal 2006. The Nominating and Governance Committee, which during 2006 was comprised of Mr. Hill and Mr. Money, has responsibility for (i) overseeing compliance by the Board and its committees with corporate governance aspects of the Sarbanes-Oxley Act and related SEC and Nasdaq rules, (ii) determining the criteria for membership on the Board, (iii) reviewing our Code of Business Conducts and Ethics, (iv) considering issues of possible conflicts of interest of board members or corporate officers, and (v) making recommendations to the Board regarding composition and size of the Board and its committees, review and selection of director nominees, and other corporate governance issues generally. The Board has determined that both Mr. Hill and Mr. Money are independent as defined in the listing standards of The Nasdaq Stock Market. The Nominating and Governance Committee has adopted a written charter approved by the Board of Directors, which is available on our website at [www.intevac.com](http://www.intevac.com).

***Lead Director***

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

**Compensation of Directors**

***Standard Director Compensation Arrangements***

Through 2002, directors of Intevac did not receive fees for services provided as directors. Beginning in 2003, non-employee directors of Intevac received a retainer of \$3,000 per quarter as compensation for their efforts serving on the Board and its subcommittees. In 2005, the retainer was increased to \$4,500 per quarter and the Lead Director was granted additional compensation of \$1,250 per quarter. Directors are reimbursed for reasonable expenses incurred in attending Board or committee meetings. We do not pay fees for committee participation or special assignments of the Board of Directors. Under the 2004 Equity Incentive Plan, all directors are eligible to receive option grants, when and as determined by the Board of Directors. During fiscal 2006, Mr. Dury, Mr. Hill, Mr. Lemos and Mr. Money each received an option to purchase 10,000 shares under the 2004 Equity Incentive Plan. Upon joining the Board in 2006, Mr. Yang received an option to purchase 30,000 shares under the 2004 Equity Incentive Plan.

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The following table sets forth summary information concerning compensation paid or accrued for services rendered to the Company in all capacities to the members of the Company's Board of Directors for the fiscal year ended December 31, 2006, other than Kevin Fairbairn, whose compensation is set forth under the Summary Compensation Table, and Norman Pond, whose compensation is discussed below.

Name	Fees Earned		Change in Pension Value and Nonqualified				Total
	or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)(1)	Non-Equity Incentive Plan Compensation (\$)	Deferred Compensation Earnings (\$)	All Other Compensation (\$)	
David S. Dury	23,000		52,959(2)				75,959
Stanley J. Hill	18,000		52,959(3)				70,959
Robert Lemos	18,000		52,959(4)				70,959
Arthur L. Money	18,000		52,959(5)				70,959
Ping Yang	15,000		208,044(6)				223,044

- (1) Amounts shown do not reflect compensation actually received by the director. Instead, the amounts shown are the compensation costs we recognized in fiscal 2006 for option awards as determined pursuant to FAS 123(R). The assumptions used to calculate the value of option awards are set forth under Note 3 of the notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for fiscal 2006 filed with the SEC on March 16, 2007.
- (2) Reflects the compensation costs recognized by Intevac in fiscal 2006 for a stock option grant with the following fair value as of the grant date: \$172,852 for a stock option grant to purchase 10,000 shares of common stock made on May 24, 2006 at an exercise price of \$22.01 per share. Mr. Dury had options to purchase 10,000 shares of common stock outstanding at December 31, 2006.
- (3) Reflects the compensation costs recognized by Intevac in fiscal 2006 for a stock option grant with the following fair value as of the grant date: \$172,852 for a stock option grant to purchase 10,000 shares of common stock made on May 24, 2006 at an exercise price of \$22.01 per share. Mr. Hill had options to purchase 28,000 shares of common stock outstanding at December 31, 2006.
- (4) Reflects the compensation costs recognized by Intevac in fiscal 2006 for a stock option grant with the following fair value as of the grant date: \$172,852 for a stock option grant to purchase 10,000 shares of common stock made on May 24, 2006 at an exercise price of \$22.01 per share. Mr. Lemos had options to purchase 65,000 shares of common stock outstanding at December 31, 2006.
- (5)

Reflects the compensation costs recognized by Intevac in fiscal 2006 for a stock option grant with the following fair value as of the grant date: \$172,852 for a stock option grant to purchase 10,000 shares of common stock made on May 24, 2006 at an exercise price of \$22.01 per share. Mr. Money had options to purchase 60,000 shares of common stock outstanding at December 31, 2006.

- (6) Reflects the compensation costs recognized by Intevac in fiscal 2006 for a stock option grant with the following fair value as of the grant date: \$524,997 for a stock option grant to purchase 30,000 shares of common stock made on March 20, 2006 at an exercise price of \$22.40 per share. Mr. Yang had options to purchase 30,000 shares of common stock outstanding at December 31, 2006.

As an executive officer of Intevac, the Chairman of the Board, Mr. Pond received a salary of \$114,495 for fiscal 2006. In addition, Mr. Pond received a matching contribution of \$2,000 under the tax-qualified 401(k) Plan, which provides for broad-based employee participation, and Mr. Pond received a payment of \$17,951 under Intevac's Profit Sharing Plan. This amount was earned in fiscal 2006, but paid in early 2007. Intevac recognized compensation cost of \$117,172 in fiscal 2006 for stock option grants with the following fair values as of the grant date: (a) \$309,955 for a stock option grant to purchase 50,000 shares of common stock made on February 1, 2005 at an exercise price of \$7.53 per share; and (b) \$133,387 for a stock option grant to purchase 10,000 shares of common stock made on May 24, 2006 at an exercise price of \$22.01 per share. Mr. Pond did not receive any additional fees for attending Board or Committee meetings.



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**CORPORATE GOVERNANCE MATTERS**

*Director independence.* The Board has determined that, with the exception of Mr. Pond and Mr. Fairbairn, all of its members are independent directors as that term is defined in the listing standards of The Nasdaq Stock Market.

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

*Board attendance at annual shareholder meetings.* We have a formal policy that encourages, but does not require, attendance by members of the Board at our Annual Meeting of Shareholders. Mr. Pond, Mr. Fairbairn and Mr. Hill attended our 2006 Annual Meeting of Shareholders.

*Policy regarding board nominees.* It is the policy of the Nominating and Governance Committee of the Company to consider recommendations for candidates to the Board of Directors from shareholders. Shareholder recommendations of candidates for election to the Board should be directed in writing to: Intevac, Inc., 3560 Bassett Street, Santa Clara, California, 95054, and must include the candidate's name, home and business contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and the Company within the last three years, and evidence of the nominating person's ownership of Company stock. Shareholder nominations to the Board must also meet the requirements set forth in the Company's bylaws.

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

The Nominating and Governance Committee periodically reviews the current composition, size and effectiveness of the Board.

In its evaluation of director candidates, including the members of the Board of Directors eligible for re-election, the Committee seeks to achieve a balance of knowledge, experience and capability on the Board and considers (1) the current size and composition of the Board and the needs of the Board and the respective committees of the Board, (2) such factors as issues of character, judgment, diversity, age, expertise, business experience, length of service, independence, other commitments and the like, (3) the relevance of the candidates skills and experience to our businesses and (4) such other factors as the Nominating and Governance Committee may consider appropriate.

While the Nominating and Governance Committee has not established specific minimum qualifications for director candidates, the Nominating and Governance Committee believes that candidates and nominees must reflect a Board that is comprised of directors who (1) are predominantly independent, (2) are of high integrity, (3) have broad, business-related knowledge and experience at the policy-making level in business, government or technology, including an understanding of our industry and our business in particular, (4) have qualifications that will increase overall Board effectiveness and (5) meet other requirements that may be required by applicable laws and regulations, such as financial literacy or financial expertise with respect to audit committee members.

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With regard to candidates who are properly recommended by shareholders or by other means, the Nominating and Governance Committee will review the qualifications of any such candidate, which review may, in the Nominating and Governance Committee's discretion, include interviewing references for the candidate, direct interviews with the candidate, or other actions that the Committee deems necessary or proper.

In evaluating and identifying candidates, the Nominating and Governance Committee has the authority to retain or terminate any third party search firm that is used to identify director candidates, and has the authority to approve the fees and retention terms of any search firm.

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The Nominating and Governance Committee will apply these same principles when evaluating Board candidates who may be elected initially by the full Board either to fill vacancies or to add additional directors prior to the Annual Meeting of Shareholders at which directors are elected.

After completing its review and evaluation of director candidates, the Nominating and Governance Committee selects, or recommends to the full Board of Directors for selection, the director nominees.

### **CODE OF ETHICS**

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

### **Required Vote**

The six nominees receiving the highest number of affirmative votes of the shares present or represented and entitled to be voted at the Annual Meeting shall be elected as directors. Votes withheld from any director are counted for purposes of determining the presence or absence of a quorum for the transaction of business, but have no other legal effect on the election of directors under California law.

**The Board of Directors recommends that shareholders vote FOR election of all of the above nominees as directors.**

### **PROPOSAL NUMBER TWO:**

#### **APPROVAL OF REINCORPORATION OF THE COMPANY FROM CALIFORNIA TO DELAWARE**

### **Introduction**

For the reasons set forth in *Principal Reasons for the Proposed Reincorporation* on page 10 of this proxy statement, our Board of Directors believes that it is advisable and in the best interests of the Company and our shareholders to change the state of incorporation of the Company from California to Delaware. This section of the proxy statement refers to the current Intevac, Inc., the California corporation, as *Intevac California* or the *Company* and to the new Intevac, Inc., the Delaware corporation, as *Intevac Delaware* or the *surviving corporation*. We propose to accomplish the reincorporation in Delaware by merging Intevac California into a newly created wholly owned subsidiary that is incorporated in Delaware (the *Reincorporation*). The name of the Delaware corporation, which will be the successor to Intevac California in the Reincorporation, will also be Intevac, Inc.

Intevac Delaware will be incorporated under Delaware law under the name *Intevac, Inc.* The address and phone number of Intevac Delaware are the same as the address and phone number of Intevac California. Up until the time of the Reincorporation, Intevac Delaware will not have any material assets or liabilities and will not have carried on any business.

We began considering the possibility of reincorporating in Delaware in early 2006, in connection with a general review by the Board of our corporate structure and related corporate governance matters. It had been over ten years since the Company had gone public, and the Board believed that it was an appropriate time for a comprehensive review of such matters. As part of that review, and in consultation with legal counsel, the Board considered reincorporating to Delaware and undertook a review of the advantages and disadvantages of changing our state of incorporation from California to Delaware. At the conclusion of that review, as discussed in [Principal Reasons for the Proposed Reincorporation](#), the Board determined that reincorporation in Delaware would be

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beneficial to the Company and its shareholders, primarily because Delaware corporate law is more comprehensive, more widely used and extensively interpreted than other state corporate laws, including California corporate law, and because the Delaware courts are known for their sophistication, consistency, speed and efficiency in applying those laws.

The Board also believes that Delaware law is better suited than California law to protect shareholders' interests in the event that the Company becomes the subject of an unsolicited takeover attempt. We are not currently aware that any person is attempting to acquire control of the Company, to obtain representation on our board of directors or take any action that would materially affect the governance of the Company. Nonetheless, the Board believes that its fiduciary duty requires it to examine our vulnerability to such attempts and what steps we may take to protect shareholder value if the Company does find itself in such a situation. In this regard, the Board believes that being incorporated in Delaware will benefit our shareholders because of the factors cited above. The Board is not, however, proposing as part of the present Reincorporation to adopt new anti-takeover strategies, even in those areas where the Delaware law may provide greater freedom to do so.

Additionally, our Board believes that, as a Delaware corporation, the Company will be better able to attract and retain qualified directors and officers than it may be able to as a California corporation, in part because Delaware law provides more predictability with respect to the issue of liability of directors and officers than California law does. The increasing frequency of claims against directors and officers that are actually litigated has greatly expanded the risks to directors and officers as they exercise their normal duties and responsibilities of governing a corporation and managing its business. The amount of time and money required to respond to and litigate such claims can be substantial. Although California law and Delaware law both permit a corporation to include a provision in its articles (or certificate, as referred to in Delaware) of incorporation that in certain circumstances reduces or limits the monetary liability of directors for breaches of their fiduciary duty of care, the greater body of interpretation of Delaware law by courts and legal commentators provides to directors and officers more predictability as to how the law will be applied than in California and, therefore, provides directors and officers of a Delaware corporation greater comfort as to their risk of liability in making decisions and taking corporate actions than under California law. The Board, therefore, believes that the proposed reincorporation may be a significant factor in continuing to attract and retain such individuals, and in encouraging them to make corporate decisions on their own merits and for the benefit of shareholders, rather than out of a desire to avoid personal liability.

On February 3, 2006, the Board met to discuss the results of the review discussed above by our management and legal counsel of our corporate structure and governance. On each of April 20, 2006, July 28, 2006 and October 26, 2006, the Board met again to discuss the advantages and disadvantages of reincorporating in Delaware, the mechanics of reincorporating and possible changes to our organizational documents associated with a reincorporation. On March 12, 2007, the Board met to confirm that the Reincorporation would be presented to our stockholders for consideration at this Annual Meeting of Shareholders, and on April 10, 2007, the Board unanimously determined that the Reincorporation is in the best interest of the Company and our shareholders, concurrently approving the Agreement and Plan of Merger (the "Merger Agreement"), the Certificate of Incorporation of Intevac Delaware (the "Delaware Certificate") and the Bylaws of Intevac Delaware (the "Delaware Bylaws"), copies of which are attached to this proxy statement as Appendices A, B and C, respectively. The final forms of the Merger Agreement, Delaware Certificate and Delaware Bylaws as implemented in the Reincorporation are expected to be in substantially the form of those attached.

Because Intevac Delaware will be governed by the Delaware General Corporation Law (the "DGCL") and the Company will have new organizational documents, if the Reincorporation proposal is approved, the proposed Reincorporation will result in certain changes in your rights as a shareholder. These differences are summarized under the sections entitled "Comparison of the Charters and Bylaws of Intevac California and Intevac Delaware" and "Significant Differences between the Corporation Laws of California and Delaware."

Our Board has unanimously approved and, for the reasons described below, recommends that you approve the proposal to reincorporate the Company's state of incorporation from California to Delaware. If approved by shareholders, we expect that the Reincorporation will become effective as soon as practicable following our Annual Meeting of Shareholders, although the proposed reincorporation could be abandoned, either before or after

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shareholder approval, if circumstances arise which, in the opinion of the Board, make it inadvisable to proceed. If, on the other hand, the shareholders do not approve the Reincorporation, we would not consummate it, and we would continue to operate as a California corporation.

**IN ORDER FOR THE PROPOSED REINCORPORATION TO BE EFFECTED, A MAJORITY OF THE OUTSTANDING SHARES OF COMMON STOCK MUST APPROVE PROPOSAL TWO. SEE VOTE REQUIRED FOR THE REINCORPORATION PROPOSAL AND BOARD OF DIRECTORS RECOMMENDATION BELOW.**

**YOU ARE URGED TO READ CAREFULLY THIS SECTION OF THE PROXY STATEMENT, INCLUDING THE RELATED APPENDICES, BEFORE VOTING ON THE REINCORPORATION.**

## **Mechanics**

The proposed Reincorporation would be effected pursuant to a Merger Agreement in substantially the form attached as Appendix A. The discussion of the Reincorporation and the Merger Agreement set forth below is qualified in its entirety by reference to the Merger Agreement. Upon completion of the Reincorporation, Intevac California will cease to exist, and Intevac Delaware will be the surviving corporation and will continue to operate our business under the name Intevac, Inc.

Upon the effective date of the Reincorporation, each outstanding share of common stock of Intevac California will be automatically converted into one share of common stock of Intevac Delaware. Each stock certificate representing issued and outstanding shares of common stock of Intevac California will continue to represent the same number of shares of common stock of Intevac Delaware. **If the Reincorporation is effected, you will not need to exchange your existing stock certificates of Intevac California for stock certificates of Intevac Delaware.** You may, however, exchange your certificates if you so choose.

The common stock of Intevac California is listed for trading on the Nasdaq Global Market, and, after the Reincorporation, Intevac Delaware's common stock will continue to be traded on the Nasdaq Global Market without interruption, under the same symbol **IVAC** as the shares of common stock of Intevac California are currently traded.

Pursuant to the Merger Agreement, Intevac California and Intevac Delaware agree to take all actions that Delaware law and California law require for Intevac California and Intevac Delaware to effect the Reincorporation, subject to the approval of Reincorporation by the shareholders of Intevac California and the sole stockholder of Intevac Delaware.

The Reincorporation will make a change only in the legal domicile of the Company (and certain related changes of a legal nature in the organizational documents of the Company, which are described in this proxy statement). The Reincorporation will not result in any change in the name, business, management, fiscal year, assets or liabilities or location of the principal offices of the Company. In addition, the proposed Reincorporation will not, we believe, significantly affect any of our material contracts with any third parties and our rights and obligations under these contractual arrangements will continue and be assumed by the surviving corporation. In addition, the directors of the Company who are elected at this Annual Meeting of Shareholders as directors of Intevac California will become the directors of Intevac Delaware.

If the Reincorporation is effected, all employee benefit plans of Intevac California (including all stock options and other equity incentive plans) will be assumed and continued by the surviving corporation. Approval of the Reincorporation will also constitute approval of the assumption of these plans by Intevac Delaware. As part of the

Reincorporation, each stock option and other equity-based award issued and outstanding pursuant to these plans will be converted automatically into a stock option or other equity-based award for the same number of shares of common stock of the surviving corporation, at the same price, upon the same terms and subject to the same conditions as set forth in the applicable plan under which the award was granted and in the particular agreement reflecting the award.



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**Vote Required for the Reincorporation Proposal and Board of Directors Recommendation**

California law requires the affirmative vote of the holders of a majority of the outstanding shares of common stock of Intevac California to approve the Merger Agreement pursuant to which Intevac California and Intevac Delaware would effect the Reincorporation. Approval of the Reincorporation proposal will constitute approval of the Merger Agreement and therefore the Reincorporation itself. A vote in favor of the Reincorporation proposal is also effectively a vote to approve the form of the Delaware Certificate and the Delaware Bylaws. If the shareholders approve the Merger Agreement and the Reincorporation is effected, the Delaware Certificate and the Delaware Bylaws in effect immediately prior to the effective date will become the certificate of incorporation and bylaws of the surviving corporation.

**THE BOARD OF DIRECTORS UNANIMOUSLY APPROVES AND RECOMMENDS THAT YOU VOTE FOR THE PROPOSED REINCORPORATION. THE EFFECT OF AN ABSTENTION OR A BROKER NON-VOTE IS THE SAME AS THAT OF A VOTE AGAINST THE REINCORPORATION PROPOSAL.**

**Principal Reasons for the Proposed Reincorporation**

For many years, the State of Delaware has followed a policy of encouraging corporations to incorporate in that state. In furtherance of this policy, Delaware has been the leader in adopting, construing and implementing comprehensive, coherent and flexible corporate laws that have been responsive to the evolving legal and business needs of corporations organized under Delaware law.

Delaware courts have also developed and elaborated principles of corporate governance that corporations can draw upon when making business and legal decisions. Our Board believes that it is a substantial benefit to have the guidance of well-established principles of corporate governance in making its business and legal decisions. Our Board also believes, as discussed above, that Delaware law may be better suited than California law to protect shareholders interests in the event of an unsolicited takeover attempt of the Company, although we are not aware that any person is currently attempting to acquire control of the Company, to obtain representation on our Board of Directors or take any action that would materially affect the governance of the Company.

Additionally as discussed above, the Board believes that, as a Delaware corporation, the Company will be better able to attract and retain qualified directors and officers than as a California corporation, in part because Delaware law provides more predictability than California law with respect to the issue of liability of directors and officers. For additional discussion of this matter, see Significant Differences between the Corporation Laws of California and Delaware Indemnification and Limitation of Liability, below.

Our Board of Directors and management have identified the following benefits of Delaware's corporate legal framework in reaching their decision to propose reincorporating in Delaware:

The Delaware General Corporate Law is generally acknowledged to be the most advanced and flexible state corporate statute in the United States.

The Delaware General Assembly each year considers and adopts statutory amendments, many proposed by the Corporation Law Section of the Delaware State Bar, in an effort to ensure that the Delaware corporate statute continues to be responsive to the changing needs of businesses.

The Delaware Court of Chancery routinely handles cases involving complex corporate issues with a level of experience and a degree of sophistication and understanding unmatched by any other court in the country. The

Delaware Supreme Court is also highly regarded and highly responsive in these matters.

The well-established body of case law construing Delaware law has developed over the last century and provides businesses with a greater predictability than the case law in most, if not all, other jurisdictions. In fact, some states have simply adopted the case law of Delaware wholesale as their own, but without the benefit of the Delaware courts to apply it.

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The Division of Corporations of the Secretary of State of Delaware is highly responsive and efficient on important administrative tasks, such as accepting and confirming the filing of corporate documents necessary to effect financings or mergers.

### **No Change in the Board Members, Business, Management, Employee Benefit Plans or Location of Principal Offices**

The Reincorporation proposal will effect only a change in our legal domicile (and certain other changes of a legal nature, the most significant of which are described in this proxy statement). The Reincorporation will NOT result in any change in our business, management, fiscal year, assets or liabilities or location of our principal facilities. The directors and officers of Intevac California will become the directors and officers of Intevac Delaware, including those directors elected at the Annual Meeting. All employee benefit plans (including stock option and other equity incentive plans) of Intevac California will be continued by Intevac Delaware, and each stock option and other equity-based award issued and outstanding pursuant to these plans will automatically be converted into a stock option or other equity-based award with respect to the same number of shares of Intevac Delaware, with the same exercise price, upon the same terms and subject to the same conditions as set forth in the applicable plan under which the award was granted and in the particular agreement reflecting the award. Approval of the reincorporation proposal will constitute approval of the assumption of these plans by Intevac Delaware. Intevac Delaware will also continue all other employee benefit arrangements of Intevac California upon the terms and subject to the conditions currently in effect.

### **Dissenters Rights Not Available**

Although in some circumstances California law provides shareholders with the right to dissent from certain corporate mergers and reorganizations and to receive the cash value of their shares rather than the merger consideration, California law does not grant dissenters rights in connection with the proposed Reincorporation because all shareholders prior to the merger remain the same after the merger.

### **Anti-takeover Implications**

Delaware, like many other states, permits a corporation to adopt a number of measures through amendment of its corporate charter or bylaws or otherwise that are designed to reduce a corporation's vulnerability to unsolicited takeover attempts. The Board believes that improving the position of the Company and the ability to protect shareholders in such circumstances is one of the reasons for the proposed Reincorporation. The Reincorporation is not, however, being proposed in order to prevent any present attempt known to our Board to acquire control of the Company or to obtain representation on our Board. In addition, our Board of Directors has no current plans to implement as part of the Reincorporation new defensive strategies to be used in such circumstances.

As part of its fiduciary duty to the shareholders, our Board may consider, at some point in the future, implementing certain defensive strategies allowed under Delaware law that are designed to enhance the Board's ability to negotiate with an unsolicited bidder. Such strategies could include, but are not limited to, the adoption of a shareholder rights plan or severance agreements for our management and key employees that would become effective upon the occurrence of a change in control of the Company. With respect to implementing such defensive strategies, The Board believes that Delaware law is preferable to California law, because of the substantial judicial precedent that exists in Delaware on the legal principles that govern the implementation and use of such defensive strategies. As either a California corporation or a Delaware corporation, the Company could implement some of these same defensive measures, but as a Delaware corporation, the Company, our Board and our shareholders would benefit from the greater guidance and predictability in such matters afforded by Delaware law.

Certain differences between California and Delaware law, which become applicable to the Company as a result of the Reincorporation without further action of our Board or shareholders, could have a bearing on unsolicited attempts to acquire control of the Company. The most significant of these is Section 203 of the Delaware General Corporation Law. Section 203 restricts a corporation from engaging in certain business combinations with interested shareholders for three years following the date that the interested shareholder became an interested shareholder, unless the Board approves the business combination. At the same time, the Company will no longer

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have the protection of sections of the California Corporation Code that limit a corporation's ability to engage in a cash-out merger with a majority stockholder and require the delivery of a fairness opinion in connection with certain transactions with interested shareholders. For a discussion of differences between the laws of California and Delaware that may affect shareholders, see *Significant Differences between the Corporation Laws of California and Delaware*, below.

### **Comparison of the Charters and Bylaws of Intevac California and Intevac Delaware**

There are significant similarities between the proposed charter documents of Intevac Delaware (the Delaware Certificate and the new bylaws of Intevac Delaware (the Delaware Bylaws)) and the current charter documents of Intevac California (the current Amended and Restated Articles of Incorporation (the California Articles) and the current Amended and Restated Bylaws (the California Bylaws)). For example, both the Delaware Certificate and the California Articles provide for the authorization of 50 million shares of common stock and 10 million shares of undesignated preferred stock. The Delaware Certificate and the California Articles each provide that the Board is entitled to determine the rights, preferences, privileges and restrictions of the authorized and unissued preferred stock at the time of issuance, which provide the Company an ability, for example, to create customized equity securities for use in a strategic investment by a corporate partner. Preferred stock with rights designated by the board of directors is also generally created as an integral part of the implementation of a shareholder rights plan defensive measure.

In general, it has been the intention of the Board to make minimal substantive changes in the rights of the Company's shareholders in preparing the Delaware Certificate. Although permitted by law in both states, neither the Delaware Certificate nor the California Articles provide for a classified board of directors, which would divide the Board into multiple classes, with each director serving for a multiple year term and only a portion of the directors elected each year. In addition, given that the California Bylaws provide that shareholders do not have the right to take action by majority written consent in lieu of an actual shareholder meeting, the Delaware Certificate provides similarly.

In preparing the Delaware Certificate and Delaware Bylaws, we have also included certain provisions that enable the shareholders of Intevac Delaware to have rights similar to those that they have automatically as shareholders of a California corporation, but that are not granted automatically by Delaware law. In particular, under California law, holders of 10% of a corporation's shares have a statutory right to call special meetings of shareholders. The Delaware statute, however, does not provide this right automatically. Accordingly, we have drafted the Delaware Certificate to continue this right for our shareholders explicitly.

The following discussion is a further summary of the material differences between the California Articles and California Bylaws, on the one hand, and the Delaware Certificate and Delaware Bylaws, on the other. The summary is qualified in their entirety, however, by reference to the respective corporation laws of California and Delaware and the full text of the Delaware Certificate, Delaware Bylaws, California Articles and California Bylaws. Approval by our shareholders of the Reincorporation will automatically result in the adoption of all the provisions set forth in the Delaware Certificate and Delaware Bylaws. A copy of the Delaware Certificate is attached hereto as Appendix B and a copy of the Delaware Bylaws is attached hereto as Appendix C. The California Articles and California Bylaws are on file with the Securities and Exchange Commission and are available from the Company upon request.

### ***Size of the Board of Directors***

California law provides that the number of directors of a corporation may be fixed in the corporation's articles of incorporation or bylaws, or a range may be established for the number of directors, with the board itself given authority to fix the exact number of directors within such range. The California Bylaws specify a range of five to nine for the number of directors and authorize the Board to fix the exact number of directors within the range by resolution or unanimous written consent. The number of directors is currently set at seven, and will be reduced to six with the

resignation of Mr. Money at the upcoming annual meeting. Changes in the size of the board of directors outside these limits can be made only with the approval of holders of a majority of the outstanding voting stock of the Company. In addition, under California law, the authorized number of directors cannot be reduced below five if a

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number of shares equal to or greater than sixteen and two-thirds percent (162/3%) of the total outstanding shares are voted in opposition.

Delaware law provides that the number of directors of a corporation, or the range of authorized directors, may be fixed or changed by the board of directors acting alone by amendment to the corporation's bylaws, unless the directors are not authorized to amend the bylaws or the number of directors is fixed in the certificate of incorporation, in which case shareholder approval is required.

In the present case, as with the California Articles, the proposed Delaware Certificate does not specify a fixed number of directors. Unlike the California Bylaws, however, the Delaware Bylaws do not specify either a fixed number or a range of directors, but provide that the Board acting alone may fix or change the number of directors, without need to seek shareholder approval.

### ***Cumulative Voting***

Cumulative voting entitles a shareholder to cast as many votes as there are directors to be elected multiplied by the number of shares registered in such shareholder's name. The shareholder may cast all of such votes for a single nominee or may distribute them among any two or more nominees. Under California law, shareholders of a corporation have the right to cumulative voting, unless the corporation elects otherwise (and provided that the corporation has shares listed on the New York or American Stock Exchanges or traded on the Nasdaq Global Market). Under Delaware law, cumulative voting in the election of directors is not permitted unless specifically provided for in the corporation's charter or bylaws.

In the present case, the Company's shareholders at the time of the initial public offering chose to eliminate cumulative voting by prohibiting it in the California Articles. Accordingly, neither the Delaware Certificate nor the Delaware Bylaws will provide for cumulative voting, and shareholders will continue not to have this right.

### ***Filling Vacancies on the Board of Directors***

Under California law, any vacancy on a corporation's board, other than one created by removal of a director, may be filled by the board itself. Even if the number of directors still in office is less than a quorum, the vacancy may be filled by the affirmative vote of a majority of the directors present at a duly called and held meeting, by the unanimous written consent of the directors then in office or by a sole remaining director. A vacancy created by removal of a director may be filled by the board only if so authorized by the corporation's articles of incorporation or by a bylaw provision approved by the corporation's shareholders.

Under Delaware law, vacancies and newly created directorships may be filled by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director, unless otherwise provided in the corporation's certificate of incorporation or bylaws (or unless the certificate of incorporation directs that a particular class of stock is to elect such director, in which case a majority of the directors elected by that class, or a sole remaining director so elected, may fill the vacancy or newly created directorship).

The Company has chosen not to alter the default provisions of its state of incorporation with respect to this issue. Therefore, in the present case, while the Board of Intevac California has the power to fill vacancies on the Board itself generally, neither the California Articles nor the California Bylaws permit the Board to fill vacancies created by the removal of a director. However, the Delaware Bylaws provide that any vacancy, including a vacancy created by the removal of a director by the shareholders of Intevac Delaware or a court order, may be filled by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director.

*Monetary Liability of Directors*

The California Articles and the Delaware Certificate both provide for the elimination of personal monetary liability of the Company's directors to the fullest extent permissible under the laws of the respective states. The provision eliminating monetary liability of directors set forth in the Delaware Certificate may be more expansive than the corresponding provision in the California Articles, however, due to differences between the California and Delaware laws themselves. For a more detailed explanation of the foregoing, see Significant Differences between the Corporation Laws of California and Delaware Limitation of Liability and Indemnification, below.



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### ***Bylaw Amendments***

The California Bylaws provide that they may be amended either by the holders of a majority of the outstanding shares entitled to vote or by the affirmative vote of the Board, except that the Board cannot amend the provision of the California Bylaws that governs the range of directors, as discussed above.

Unlike the California Bylaws, the Delaware Certificate and Delaware Bylaws provide that the Delaware Bylaws can be amended in all respects by either the holders of a majority of the outstanding shares entitled to vote or by a majority of the entire Board of Directors then in office.

### **Significant Differences between the Corporation Laws of California and Delaware**

The following provides a summary of major substantive differences between the corporation laws of California and Delaware. It is not an exhaustive description of all differences between the laws of the two states. Accordingly, all statements herein are qualified in their entirety by reference to the respective corporation laws of California and Delaware.

### ***Shareholder Voting in Acquisitions***

The California and Delaware laws are substantially similar in terms of when shareholder approval is required for a corporation to undertake various types of acquisition transactions. Both California and Delaware law generally require that a majority of the shareholders of both the acquiring and target corporations approve a statutory merger. In addition, both California and Delaware law require that a sale of all or substantially all of the assets of a corporation be approved by a majority of the outstanding voting shares of the corporation selling its assets.

Delaware law does not require a shareholder vote of the surviving corporation in a merger (unless provided otherwise in the corporation's certificate of incorporation) if:

The merger agreement does not amend the existing certificate of incorporation;

Each share of stock of the surviving corporation outstanding immediately before the transaction is an identical outstanding share after the merger; and

Either:

no shares of common stock of the surviving corporation (and no shares, securities or obligations convertible into such stock) are to be issued in the merger, or

the shares of common stock of the surviving corporation to be issued in the merger (including shares issuable upon conversion of any other shares, securities or obligations to be issued in the merger) do not exceed twenty percent (20%) of the shares of common stock of the surviving corporation outstanding immediately prior to the transaction.

California law contains a similar exception to its voting requirements for reorganizations, where shareholders or the corporation itself immediately prior to the reorganization will own immediately after the reorganization equity securities constituting more than five-sixths ( $5/6$ ) of the voting power of the surviving or acquiring corporation or its parent entity.

***Limitations on Certain Business Combinations***

Delaware, like a number of states, has adopted special laws designed to make certain kinds of unfriendly corporate takeovers, or other non-board approved transactions involving a corporation and one or more of its significant shareholders, more difficult.

Under Section 203 of the Delaware statute, a Delaware corporation is prohibited from engaging in a business combination with an interested shareholder for three years following the date that that person or entity becomes an interested shareholder. With certain exceptions, an interested shareholder is a person or entity that owns, individually or with or through other persons or entities, fifteen percent (15%) or more of the corporation's outstanding voting stock (including rights to acquire stock pursuant to an option, warrant, agreement, arrangement

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or understanding, or upon the exercise of conversion or exchange rights, and also stock as to which the person has voting rights only). The three-year moratorium imposed by Section 203 on business combinations does not apply if:

Prior to the date on which the interested shareholder becomes an interested shareholder, the board of directors of the corporation approves either the business combination or the transaction that resulted in the person or entity becoming an interested shareholder;

Upon consummation of the transaction that makes the person or entity an interested shareholder, the interested shareholder owns at least eighty-five percent (85%) of the corporation's voting stock outstanding at the time the transaction commenced (excluding, for purposes of determining voting stock outstanding, shares owned by directors who are also officers of the corporation and shares held by employee stock plans that do not give employee participants the right to decide confidentially whether to accept a tender or exchange offer); or

On or after the date the person or entity becomes an interested shareholder, the business combination is approved both by the board of directors and by the shareholders at a meeting by sixty-six and two-thirds percent (66 $\frac{2}{3}$ %) of the outstanding voting stock not owned by the interested shareholder.

In the present case, although Delaware law would permit Intevac Delaware to elect in its certificate of incorporation not to be governed by Section 203, we have not drafted the Delaware Certificate to contain such an opt out election, and the Board intends that Intevac Delaware be governed by Section 203 if the Reincorporation is effected. The Board believes that Section 203 will encourage any potential acquiror to negotiate with the Board, thus assisting the Board in securing a transaction more favorable to the Company's shareholders. Section 203 also may have the effect of limiting the ability of a potential unsolicited acquiror to make a two-tiered bid for Intevac Delaware in which all shareholders are not treated equally. Shareholders should note, however, that the application of Section 203 to Intevac Delaware will confer upon the Board the power to reject a proposed business combination in certain circumstances, even though a potential acquiror may be offering a substantial premium for the Company's shares over the then-current market price. Section 203 could also discourage certain potential acquirors who are unwilling to comply with its provisions from even approaching the Company.

California law does not have a section similar to Delaware Section 203, but it does have different provisions that may limit a corporation's ability to engage in certain business combinations. California law requires that, in a merger of a corporation with a shareholder (or its affiliate) who hold more than fifty percent (50%) but less than ninety percent (90%) of the corporation's common stock, the other shareholders of the corporation must receive common stock in the transaction, unless all the corporation's shareholders consent to the transaction. This provision of California law may have the effect of making a cash-out merger by a majority shareholder (possibly as the second step in a two-step merger) more difficult to accomplish. Although Delaware law does not parallel California law in this respect, under some circumstances Section 203 does provide similar protection to shareholders against coercive two-tiered bids for a corporation in which the shareholders are not treated equally.

California law also provides that, except in certain circumstances, when a tender offer or a proposal for a reorganization or sale of assets is made by an interested party (generally a controlling or managing party of the corporation), the interested party must provide the other shareholders with an affirmative written opinion as to the fairness of the consideration to be paid to the shareholders. This fairness opinion requirement does not apply to corporations that have fewer than 100 shareholders of record or to a transaction that has been qualified under California state securities laws. Furthermore, if a tender of shares or a vote is sought pursuant to an interested party's proposal and a later proposal is made by another party at least 10 days prior to the date of acceptance of the interested party's proposal, the shareholders must be informed of the later offer and be afforded a reasonable opportunity to withdraw their vote, consent or proxy, and to withdraw any tendered shares. Delaware law has no comparable provision.

***Removal of Directors***

In general, under California law, any director, or the entire board of directors, may be removed, with or without cause, with the approval of a majority of the outstanding shares entitled to vote. In the case of a corporation with cumulative voting or whose board is classified, however, no individual director may be removed (unless the entire

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board is removed) if the number of votes cast against such removal would be sufficient to elect the director under cumulative voting rules. In addition, shareholders holding at least ten percent (10%) of the outstanding shares of any class may bring suit to remove any director in case of fraudulent or dishonest acts or gross abuse of authority or discretion.

Under Delaware law, any director, or the entire board of directors, of a corporation that does not have a classified board of directors or cumulative voting may be removed with or without cause with the approval of a majority of the outstanding shares entitled to vote at an election of directors. In the case of a Delaware corporation whose board is classified, unless the certificate of incorporation provides otherwise, shareholders may effect such removal only for cause. In addition, as in California, if a Delaware corporation has cumulative voting, and if less than the entire board is to be removed, a director may not be removed without cause by a majority of the outstanding shares if the votes cast against such removal would be sufficient to elect the director under cumulative voting rules. Delaware law also permits a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with the removal of directors.

In the present case, the California Articles and California Bylaws do not provide for a classified board of directors or cumulative voting. As a result, Intevac California directors currently may be removed, with or without cause, with the approval of a majority of the outstanding shares entitled to vote. As Intevac Delaware will similarly have neither a classified board nor cumulative voting, the directors the Company after the Reincorporation will continue to be subject to removal with or without cause.

### ***Limitation of Liability and Indemnification***

California and Delaware have similar laws respecting the liability of directors of a corporation and the indemnification by the corporation of its officers, directors, employees and other agents for damages they incur. The laws of both states also permit corporations to adopt a provision in their charters eliminating the liability of a director to the corporation or its shareholders for monetary damages for breach of the director's fiduciary duty of care. Nonetheless, as discussed below, there are certain differences between the laws of the two states respecting indemnification and limitation of liability. In general, however, Delaware law is somewhat broader in allowing corporations to indemnify and limit the liability of corporate agents, which the Board believes, among other things, helps Delaware corporations in attracting and retaining outside directors.

The Delaware General Corporate Law was amended in 1986 in response to widespread concern about the ability of Delaware corporations to attract capable directors in light of then-current difficulties in obtaining and maintaining directors and officers insurance. The legislative commentary to the law states that it is intended to allow Delaware corporations to provide substitute protection, in various forms, to their directors and to limit director liability under certain circumstances.

### ***Elimination of Director Personal Liability for Monetary Damages***

One provision of the revised DGCL permits a corporation to include a provision in its certificate of incorporation which limits or eliminates the personal liability of a director for monetary damages arising from breaches of his or her fiduciary duties to the corporation or its stockholders, subject to certain exceptions. Such a provision may not, however, eliminate or limit director monetary liability for:

Breaches of the director's duty of loyalty to the corporation or its stockholders;

Acts or omissions not in good faith or involving intentional misconduct or knowing violations of law;

The payment of unlawful dividends or unlawful stock repurchases or redemptions; or

Transactions in which the director received an improper personal benefit.

Such a limitation of liability provision also may not limit a director's liability for violation of, or otherwise relieve the Company or directors from the necessity of complying with, federal or state securities laws, or affect the availability of non-monetary remedies such as injunctive relief or rescission.

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California law contains similar authorization for a corporation to eliminate the personal liability of directors for monetary damages, except where such liability is based on:

intentional misconduct or knowing and culpable violation of law;

acts or omissions that a director believes to be contrary to the best interests of the corporation or its shareholders or that involve the absence of good faith on the part of the director

receipt of an improper personal benefit;

acts or omissions that show reckless disregard for the director's duty to the corporation or its shareholders, where the director in the ordinary course of performing a director's duties should be aware of a risk of serious injury to the corporation or its shareholders;

acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the corporation and its shareholders

transactions between the corporation and a director who has a material financial interest in such transaction; and

liability for improper distributions, loans or guarantees.

In the present case, the current California Articles eliminate the liability of directors to the Company for monetary damages to the fullest extent permissible under California law. The Delaware Certificate similarly eliminates the liability of directors to the Company for monetary damages to the fullest extent permissible under Delaware law. As a result, following the Reincorporation directors of the Company cannot not be held liable for monetary damages even for gross negligence or lack of due care in carrying out their fiduciary duties as directors, so long as that gross negligence or lack of due care does not involve bad faith or a breach of their duty of loyalty to the Company.

***Indemnification***

California law requires indemnification when the individual has defended successfully the action on the merits. Delaware law requires indemnification of expenses when the individual being indemnified has successfully defended any action, claim, issue or matter therein, on the merits or otherwise. Delaware law generally permits indemnification of expenses, including attorneys' fees, actually and reasonably incurred in the defense or settlement of a derivative or third-party action, provided there is a determination by a majority vote of a disinterested quorum of the directors, by independent legal counsel or by the stockholders that the person seeking indemnification acted in good faith and in a manner reasonably believed to be in best interests of the corporation. Without court approval, however, no indemnification may be made in respect of any derivative action in which such person is adjudged liable for negligence or misconduct in the performance of his or her duty to the corporation. Expenses incurred by an officer or director in defending an action may be paid in advance under Delaware law or California law, if the director or officer undertakes to repay such amounts if it is ultimately determined that he or she is not entitled to indemnification. In addition, the laws of both states authorize a corporation to purchase indemnity insurance for the benefit of its officers, directors, employees and agents whether or not the corporation would have the power to indemnify against the liability covered by the policy.

California law permits a California corporation to provide rights to indemnification beyond those provided therein to the extent such additional indemnification is authorized in the corporation's articles of incorporation. Thus, if so

authorized, rights to indemnification may be provided pursuant to agreements or bylaw provisions which make mandatory the permissive indemnification provided by California law. Intevac California's Articles of Incorporation authorize indemnification beyond that expressly mandated by California law. Delaware law also permits a Delaware corporation to provide indemnification in excess of that provided by statute. Delaware law does not require authorizing provisions in the certificate of incorporation.



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***Indemnification Agreements.***

A provision of Delaware law states that indemnification provided by statute will not be deemed exclusive of any other right under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise. Under Delaware law, therefore, the indemnification agreement entered into by Intevac California with its officers and directors may be assumed by Intevac Delaware as part of the Reincorporation. If the Reincorporation is consummated, the indemnification agreements will be amended to the extent necessary to conform the agreements to Delaware law and to provide for indemnification of officers and directors and advancement of expenses to the maximum extent permitted by Delaware law. A vote in favor of the Reincorporation is also approval of such amendments to the indemnification agreements. Among other things, the indemnification agreements will be amended to include within their purview future changes in Delaware law that expand the permissible scope of indemnification of directors and officers of Delaware corporations.

***Inspection of Shareholder Lists and Books and Records***

Both California and Delaware law allow any shareholder to inspect a corporation's shareholder list for a purpose reasonably related to the person's interest as a shareholder. California law provides, in addition, for an absolute right to inspect and copy the corporation's shareholder list by persons holding an aggregate of five percent (5%) or more of the corporation's voting shares, or shareholders holding an aggregate of one percent (1%) or more of such shares who have contested the election of directors. Delaware law also allows the shareholders to inspect the list of shareholders entitled to vote at a meeting within a ten-day period preceding a shareholders' meeting for any purpose germane to the meeting. Delaware law, however, contains no provisions comparable to the absolute right of inspection provided by California law to certain shareholders.

Under California law any shareholder may examine the accounting books and records and the minutes of the shareholders and the board and its committees, provided that the inspection is for a purpose reasonably related to the shareholder's interests as a shareholder. The Delaware statute may be slightly more favorable to shareholders in this respect, in that a stockholder with a proper purpose is not limited to inspecting accounting books and records and minutes, and may examine other records as well. In addition, California law limits the right of inspection of shareholder lists to record shareholders, whereas Delaware has extended that right to beneficial owners of shares.

***Appraisal Rights***

Under both California and Delaware law, a shareholder of a corporation participating in certain major corporate transactions may, under varying circumstances, be entitled to appraisal rights, by which the shareholder may demand to receive cash in the amount of the fair market value of his or her shares in lieu of the consideration he or she would otherwise receive in the transaction.

Under Delaware law, fair market value is determined without reference to any element of value arising from the accomplishment or expectation of the merger or consolidation, and appraisal rights are generally not available:

with respect to the sale, lease or exchange of all or substantially all of the assets of a corporation;

with respect to a merger or consolidation by a target corporation whose shares are either listed on a national securities exchange or are held of record by more than 2,000 holders (or, if the shareholders receive shares of another corporation, then that other corporation must be either listed on a national securities exchange or held of record by more than 2,000 holders), plus cash in lieu of fractional shares of such corporation or any combination thereof; or

to shareholders of a corporation surviving a merger if no vote of the shareholders of the surviving corporation is required to approve the merger under Delaware law.

The limitations on the availability of appraisal rights under California law are different from those under Delaware law. Shareholders of a California corporation whose shares are listed on a national securities exchange generally do not have such appraisal rights unless the holders of at least five percent (5%) of the class of outstanding shares claim the right or the corporation or any law restricts the transfer of the shares to be received. Appraisal rights are also not available if the shareholders of a corporation or the corporation itself, or both, immediately prior to the

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reorganization will own immediately after the reorganization equity securities representing more than five-sixths (5/6) of the voting power of the surviving or acquiring corporation or its parent entity. On the other hand, California law generally affords appraisal rights in a sale of all or substantially all assets type of reorganization, while Delaware law does not.

### ***Dissolution***

Under California law, the holders of fifty percent (50%) or more of a corporation's total voting power may authorize the corporation's dissolution, with or without the approval of the corporation's board of directors, and this right may not be modified by the articles of incorporation. Under Delaware law, unless the board of directors approves the proposal to dissolve, the dissolution must be unanimously approved by all the shareholders entitled to vote on the matter. Only if the dissolution is initially approved by the board of directors may the dissolution be approved by a simple majority of the outstanding shares of the Delaware corporation's stock entitled to vote. In addition, Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with such a board-initiated dissolution. In the present case, however, the Delaware Certificate contains no such supermajority voting requirement.

### ***Interested Director Transactions***

Under both California and Delaware law, certain contracts or transactions in which one or more of a corporation's directors has an interest are not void or voidable simply because of such interest, provided that certain conditions, such as obtaining required disinterested approval and fulfilling the requirements of good faith and full disclosure, are met. With certain minor exceptions, the conditions are similar under California and Delaware law.

### ***Shareholder Derivative Suits***

California law provides that a shareholder bringing a derivative action on behalf of a corporation need not have been a shareholder at the time of the transaction in question, if certain tests are met. Under Delaware law, a shareholder may bring a derivative action on behalf of the corporation only if the shareholder was a shareholder of the corporation at the time of the transaction in question or if his or her stock thereafter came to be owned by him or her by operation of law.

California law also provides that the corporation or the defendant in a derivative suit may make a motion to the court for an order requiring the plaintiff shareholder to furnish a security bond. Delaware does not have a similar bonding requirement.

### ***Dividends and Repurchases of Shares***

Delaware law is more flexible than California law with respect to implementing share repurchase programs. Delaware law permits a corporation to declare and pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year, so long as the capital of the corporation following the payment of the dividend is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets. In addition, Delaware law generally provides that a corporation may redeem or repurchase its shares if the capital of the corporation would not be impaired following the transaction.

Under California law, a corporation may not make any distribution to its shareholders unless either:

the corporation's retained earnings immediately prior to the proposed distribution equal or exceed the amount of the proposed distribution; or

immediately after giving effect to the distribution, the corporation's assets (exclusive of goodwill, capitalized research and development expenses and deferred charges) would be at least equal to one and one fourth (1 1/4) times its liabilities (not including deferred taxes, deferred income and other deferred credits), and the corporation's current assets would be at least equal to its current liabilities (or one and one fourth (1 1/4) times its current liabilities if the average pre-tax and pre-interest expense earnings for the preceding two fiscal years were less than the average interest expense for such years).

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These tests are applied to California corporations on a consolidated basis.

### ***Application of the California General Corporation Law to Delaware Corporations***

Under Section 2115 of the California Corporations Code, corporations not organized under California law but which have significant contacts with California may be subject to a number of provisions of the California General Corporation Law. However, an exemption from Section 2115 is provided for corporations whose shares are listed on a major national securities exchange, such as the Nasdaq Global Market. Following the proposed reincorporation, the common stock of Intevac Delaware will continue to be traded on the Nasdaq Global Market, and, accordingly, it is expected that Intevac Delaware will be exempt from Section 2115.

Notwithstanding the above exemption from Section 2115, the Company will still be subject to the California Corporate Disclosure Act. This act applies to publicly traded corporations incorporated in California or qualified to do business in California. The Act requires significant annual disclosures to the California Secretary of State, although substantial portions of the requirements cover the same general categories of information that are included in SEC filings.

### **Material Federal Income Tax Considerations**

This section of the proxy statement summarizes the material U.S. federal income tax considerations relevant to the Reincorporation that apply to holders of Intevac California's common stock. This discussion is based on existing provisions of the Internal Revenue Code of 1986, as amended, existing treasury regulations and current administrative rulings and court decisions, all of which are subject to change. Any such change, which may or may not be retroactive, could alter the tax consequences to Intevac Delaware, Intevac California or Intevac California's shareholders as described herein.

Not all U.S. federal income tax considerations that may be relevant to you in light of your particular circumstances are discussed herein. Factors that could alter the tax consequences of the Reincorporation to you include:

if you are a dealer in securities;

if you are a foreign person or entity;

if you do not hold your Intevac California common stock as capital assets; or

if you acquired your Intevac California common stock in connection with stock option or stock purchase plans or in other compensatory transactions.

In addition, not all of the tax consequences of the Reincorporation under foreign, state or local tax laws are discussed herein, nor are the tax consequences of transactions effectuated prior or subsequent to, or concurrently with, the Reincorporation, whether or not any such transactions are undertaken in connection with the Reincorporation, including, for example, any transaction in which shares of Intevac California common stock are acquired or shares of Intevac Delaware common stock are disposed. The tax consequences to holders of options to acquire Intevac California common stock are also not discussed herein. Accordingly, you are urged to consult your own tax advisors as to the specific tax consequences of the Reincorporation, including the applicable federal, state, local and foreign tax consequences to you of the Reincorporation.

A ruling from the Internal Revenue Service in connection with the Reincorporation will not be requested.

It is anticipated that the Reincorporation will qualify as a reorganization within the meaning of Section 368 of the Internal Revenue Code, which will result in the following material federal income tax consequences:

You will not recognize any gain or loss upon your receipt of Intevac Delaware common stock in the Reincorporation;

the aggregate tax basis of the Intevac Delaware common stock received by you in the Reincorporation will be the same as the aggregate tax basis of Intevac California common stock surrendered in exchange therefor;

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the holding period of the Intevac Delaware common stock received by you in the Reincorporation will include the period for which Intevac California common stock surrendered in exchange therefor was considered to be held; and

Neither Intevac Delaware nor Intevac California will recognize gain or loss solely as a result of the Reincorporation.

If the Internal Revenue Service successfully challenges the status of the Reincorporation as a reorganization, you would recognize taxable gain or loss with respect to each share of Intevac California common stock surrendered equal to the difference between your basis in such share and the fair market value, as of the completion of the Reincorporation, of the Intevac Delaware common stock received in exchange therefor. In such event, your aggregate basis in the Intevac Delaware common stock so received would equal its fair market value as of the effective time of the Reincorporation, and your holding period for such stock would begin the day after the Reincorporation.

## **Accounting Consequences**

We believe that there will be no material accounting consequences for us resulting from the Reincorporation.

## **Regulatory Approval**

To our knowledge, the only required regulatory or governmental approval or filings necessary in connection with the consummation of the Reincorporation would be the filings with the Secretary of State of California and the Secretary of State of Delaware.

Our Board of Directors believes that approval of the Reincorporation of the Company from California to Delaware is in the best interests of the Company and its shareholders.

**Our Board of Directors unanimously recommends a vote FOR the Reincorporation of the Company from California to Delaware.**

## **PROPOSAL NO. 3:**

### **APPROVAL OF AN AMENDMENT TO THE INTEVAC 2004 EQUITY INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES RESERVED FOR ISSUANCE THEREUNDER BY 900,000 SHARES**

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

As a result of the desire to give further incentive to and retain current employees and officers, options to purchase 942,600 shares were granted from the 2004 Equity Incentive Plan (the 2004 Plan ) during fiscal 2006. As of March 22, 2007, there were 2,265,182 unexercised options outstanding and 219,386 shares available for grant under the 2004 Plan, not including the 900,000 shares subject to shareholder approval at this 2007 Annual Meeting. The unexercised options and shares available for grant represent 11.6% of the shares outstanding at March 22, 2007. Including the 900,000 shares subject to shareholder approval at this 2007 Annual Meeting, the percentage will increase to 15.8% of

the shares outstanding.

**Proposed Amendment**

At the 2007 Annual Meeting, we are asking our shareholders to approve an amendment to the 2004 Plan to increase the number of shares reserved for issuance under the 2004 Plan by 900,000 shares, for an aggregate of 2,900,000 shares reserved for issuance thereunder plus shares remaining from the 1995 Stock Option/Stock Issuance Plan. The Board of Directors approved the proposed amendment to the 2004 Plan in March 2007, subject



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to stockholder approval at the 2007 Annual Meeting. The amendment to increase the number of shares reserved under the 2004 Plan is proposed in order to give the Board and the Compensation Committee of the Board greater flexibility to grant stock options. The Board and management believe that granting stock options motivates high levels of performance, aligns the interests of employees and shareholders by giving employees the perspective of an owner with an equity stake in Intevac, and provides an effective means of recognizing employee contributions to our success. The Board and management also believe that stock options are of great value in recruiting and retaining highly qualified technical and other key personnel who are in great demand, as well as rewarding and encouraging current employees. Finally, the Board and management believe that the ability to grant options will be important to our future success by allowing us to accomplish these objectives.

### **Board of Directors Recommendation**

**The Board of Directors recommends that shareholders vote FOR the amendment to the 2004 Equity Incentive Plan to increase the number of shares reserved for issuance thereunder by 900,000 shares.**

### **Summary of the 2004 Equity Incentive Plan**

The following paragraphs provide a summary of the principal features of the 2004 Plan and its operation. The following summary is qualified in its entirety by reference to the 2004 Plan.

#### ***Background and Purpose of the Plan***

The 2004 Plan permits the grant of the following types of incentive awards: (1) stock options, (2) stock appreciation rights, (3) restricted stock, (4) performance units, and (5) performance shares (individually, an Award). The 2004 Plan is intended to help us to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to employees, directors and consultants, and promote the success of Intevac.

#### ***Administration of the Plan***

Our Board of Directors or the Compensation Committee of our Board of Directors (in either case, the Committee) administers the 2004 Plan. Members of the Committee generally must qualify as outside directors under Section 162(m) of the Internal Revenue Code (so that we are entitled to receive a federal tax deduction for certain compensation paid under the Incentive Plan) and must meet such other requirements as are established by the Securities and Exchange Commission for plans intended to qualify for exemption under Rule 16b-3. For the plan to qualify for exemption under Rule 16b-3, members of the Committee must be non-employee directors. Notwithstanding the foregoing, the Board of Directors also may appoint one or more separate committees to administer the 2004 Plan with respect to employees who are not officers or directors of Intevac.

Subject to the terms of the 2004 Plan, the Committee has the sole discretion to select the employees and consultants who will receive Awards, determine the terms and conditions of Awards (for example, the exercise price and vesting schedule), and interpret the provisions of the Plan and outstanding Awards.

A total of 1,200,000 shares of our Common Stock were originally reserved for issuance under the 2004 Plan, and an additional 800,000 shares were reserved and approved by the stockholders at the Company's 2006 Annual Meeting; however, Proposal Three, if approved, will raise the number of shares reserved by 900,000 shares, to 2,900,000 shares. No more than 20% of the shares reserved for issuance under the 2004 Plan may be issued pursuant to Awards that are not stock options or stock appreciation rights that are granted at exercise prices equal to 100% of the fair market value on the date of grant (that is, pursuant to Awards of restricted stock, performance units, performance shares, discounted stock options or discounted stock appreciation rights). In addition, shares which were

reserved but not issued under our 1995 Stock Option/ Stock Issuance Plan (the 1995 Plan ) as of the effective date of the 2004 Plan, as well as any shares returned to the 1995 Plan are available for issuance under the 2004 Plan.

If an Award expires or is cancelled without having been fully exercised or vested, the unvested or cancelled shares generally will be returned to the available pool of shares reserved for issuance under the 2004 Plan. Also, if we experience a stock dividend, reorganization or other change in our capital structure, the Committee has

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discretion to adjust the number of shares available for issuance under the 2004 Plan, the outstanding Awards, and the per-person limits on Awards, as appropriate to reflect the stock dividend or other change.

### ***Eligibility to Receive Awards***

The Committee selects the employees and consultants who will be granted Awards under the 2004 Plan. The actual number of individuals who will receive an Award under the Plan cannot be determined in advance because the Committee has the discretion to select the participants.

### ***Stock Options***

A stock option is the right to acquire shares of our Common Stock at a fixed exercise price for a fixed period of time. Under the 2004 Plan, the Committee may grant non-statutory stock options and/or incentive stock options (which entitle employees, but not Intevac, to more favorable tax treatment). The Committee determines the number of shares covered by each option, but during any fiscal year, no participant may be granted options for more than 200,000 shares, except that a participant may be granted options for an additional 300,000 shares in connection with his or her initial employment.

The exercise price of the shares subject to each option is set by the Committee but cannot be less than 100% of the fair market value (on the date of grant) of the shares covered by incentive stock options or by non-statutory options that are intended to qualify as performance based under Section 162(m) of the Internal Revenue Code.

In addition, the exercise price of an incentive stock option must be at least 110% of fair market value if (on the grant date) the participant owns stock possessing more than 10% of the total combined voting power of all classes of our stock or any of our subsidiaries. The aggregate fair market value of the shares (determined on the grant date) covered by incentive stock options, that first become exercisable by any participant during any calendar year also may not exceed \$100,000.

An option granted under the 2004 Plan cannot generally be exercised until it becomes vested. The Committee establishes the vesting schedule of each option at the time of grant. Options become exercisable at the times and on the terms established by the Committee. Options granted under the 2004 Plan expire at the times established by the Committee, but the term of an incentive stock option cannot be greater than 10 years after the grant date (5 years in the case of an incentive stock option granted to a participant who owns stock possessing more than 10% of the total combined voting power of all classes of our stock or any of our subsidiaries).

The exercise price of each option granted under the 2004 Plan must be paid in full at the time of exercise. The exercise price may be paid in any form determined by the Committee, including, but not limited to, cash, check, surrender of shares that, if acquired from us, have been held for at least six months, or pursuant to a cashless exercise program. The Committee may also permit, in some cases, the exercise price to be paid by means of a promissory note or through a reduction in the amount of our liability to the participant.

### ***Stock Appreciation Rights***

Stock appreciation rights are awards that grant the participant the right to receive an amount equal to (1) the number of shares exercised, times (2) the amount by which our then current stock price exceeds the exercise price. The exercise price will be set on the date of grant, but can vary in accordance with a predetermined formula. An individual will be able to profit from a stock appreciation right only if the fair market value of the stock increases above the exercise price.

Awards of stock appreciation rights may be granted in connection with all or any part of an option, either concurrently with the grant of an option or at any time thereafter during the term of the option, or may be granted independently of options. There are three types of stock appreciation rights available for grant under the 2004 Plan. A tandem stock appreciation right is a stock appreciation right granted in connection with an option that entitles the participant to exercise the stock appreciation right by surrendering to us a portion of the unexercised related option. A tandem stock appreciation right may be exercised only with respect to the shares for which its related option is then exercisable. An affiliated stock appreciation right is a stock appreciation right granted in connection with an option that is automatically deemed to be exercised upon the exercise of the related option, but does not

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necessitate a reduction in the number of shares subject to the related option. A freestanding stock appreciation right is one that is granted independent of any options. No participant may be granted stock appreciation rights covering more than 200,000 shares in any fiscal year, except that a participant may be granted stock appreciation rights covering an additional 300,000 shares in connection with his or her initial employment.

The Committee determines the terms of stock appreciation rights, except that the exercise price of a tandem or affiliated stock appreciation right must be equal to the exercise price of the related option. When a tandem stock appreciation right, granted in connection with an option, is exercised, the related option, to the extent surrendered, will cease to be exercisable. A tandem or affiliated stock appreciation right, which is granted in connection with an option, will be exercisable until, and will expire, no later than the date on which the related option ceases to be exercisable or expires. A freestanding stock appreciation right, which is granted without a related option, will be exercisable, in whole or in part, at such time as the Committee specifies in the stock appreciation right agreement.

The participant who exercises a stock appreciation right will receive from us an amount equal to the excess of the fair market value of a share on the date of exercise of the stock appreciation right over the exercise price times the number of shares with respect to which the stock appreciation right is exercised. Our obligation arising upon the exercise of a stock appreciation right may be paid in shares or in cash, or any combination thereof, as the Committee may determine.

### ***Restricted Stock***

Awards of restricted stock are shares that vest in accordance with the terms and conditions established by the Committee. The Committee determines the number of shares of restricted stock granted to any employee or consultant, but no participant may be granted more than 125,000 shares of restricted stock in any fiscal year, except that a participant may be granted up to an additional 175,000 shares of restricted stock in connection with his or her initial employment.

In determining whether an Award of restricted stock should be made, and/or the vesting schedule for any such Award, the Committee may impose whatever conditions to vesting as it determines to be appropriate. Upon termination of service, unvested shares of restricted stock generally will be forfeited.

### ***Performance Units and Performance Shares***

Performance units and performance shares are Awards that will result in a payment to a participant only if performance objectives established by the Committee are achieved or the Awards otherwise vest. The applicable performance objectives will be determined by the Committee, and may be based upon the achievement of Company-wide, divisional or individual goals or upon any other basis determined by the Committee. Performance units have an initial value that is established by the Committee on or before the date of grant. Performance shares have an initial value equal to the fair market value of a share on the date of grant. The Committee determines the number of performance units and performance shares granted to a participant, but no participant may be granted performance units with an initial value greater \$750,000 or granted more than 125,000 performance shares in any fiscal year, except that a participant may be granted performance units with an initial value up to an additional \$750,000 and/or an additional 175,000 performance shares in connection with his or her initial employment.

### ***Performance Goals***

Under Section 162(m) of the Internal Revenue Code, the annual compensation paid to our Chief Executive Officer and to each of our other four most highly compensated executive officers may not be deductible to the extent it exceeds \$1 million. However, we are able to preserve the deductibility of compensation in excess of \$1 million if the

conditions of Section 162(m) are met. These conditions include shareholder approval of the Plan, setting limits on the number of Awards that any individual may receive and, for Awards other than options, establishing performance criteria that must be met before the Award actually will vest or be paid.

We have designed the 2004 Plan so that it permits us to pay compensation that qualifies as performance-based under Section 162(m). Thus, the Committee (in its discretion) may make performance goals applicable to a participant with respect to an Award. At the Committee's discretion, one or more of the following performance

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goals may apply (all of which are defined in the 2004 Plan): cost of sales as a percentage of sales, earnings per share, marketing and sales expenses as a percentage of sales, net income as a percentage of sales, operating margin, revenue, total shareholder return and working capital.

### ***Change of Control***

In the event of a change in control of Intevac, the successor corporation may either assume or provide a substitute award for each outstanding Award. In the event the successor corporation refuses to assume or provide a substitute award, the Award will immediately vest and become exercisable as to all of the shares subject to such Award. In such case, the Committee will provide at least 15 days notice of such immediate vesting and exercisability. The Award will then terminate upon the expiration of the notice period.

### ***Limited Transferability of Awards***

Awards granted under the 2004 Plan generally may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the applicable laws of descent and distribution.

### **Material Federal Tax Considerations**

The following brief summary of the effect of federal income taxation upon the participant and Intevac with respect to Awards granted under the 2004 Plan does not purport to be complete, and does not discuss the tax consequences of a participant's death or the income tax laws of any state or foreign country in which the participant may reside.

### ***Non-statutory Stock Options***

No taxable income is reportable when a non-statutory stock option is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the excess of the fair market value (on the exercise date) of the shares purchased over the exercise price of the option. Any additional gain or loss recognized upon any later disposition of the shares will be capital gain or loss, which may be long- or short-term depending on the holding period. As a result of Section 409A of the Internal Revenue Code, however, non-statutory stock options granted with an exercise price below the fair market value of the underlying stock may be taxable to a participant before he or she exercises an award. As of the date of this proxy, how such awards will be taxed is unclear.

### ***Incentive Stock Options***

No taxable income is reportable when an incentive stock option is granted or exercised, unless the alternative minimum tax rules apply, in which case taxation occurs upon exercise. If the participant exercises the option and then later sells or otherwise disposes of the shares more than two years after the grant date and more than one year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the shares before the end of the two- or one-year holding periods described above, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option.

### ***Stock Appreciation Rights***

No taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the amount of cash received and the fair market value of any shares received. Any additional gain or loss recognized upon any later disposition of the shares would be

capital gain or loss.

***Restricted Stock, Performance Units and Performance Shares***

A participant will not have taxable income upon grant of restricted stock, performance units or performance shares, unless he or she elects to be taxed at that time. Instead, he or she will recognize ordinary income at the time of vesting equal to the fair market value (on the vesting date) of the shares or cash received minus any amount paid for the shares.



**Table of Contents*****Tax Effect for the Company***

Intevac generally will be entitled to a tax deduction in connection with an Award under the 2004 Plan in an amount equal to any ordinary income realized by a participant at the time the participant recognizes such income (for example, upon the exercise of a non-statutory stock option). Special rules limit the deductibility of compensation paid to our Chief Executive Officer and to each of our four most highly compensated executive officers, as discussed above under Performance Goals .

**Amendment and Termination of the 2004 Plan**

The Board generally may amend or terminate the 2004 Plan at any time and for any reason. Amendments will be contingent on stockholder approval if required by applicable law or stock exchange listing requirements. By its terms, the 2004 Plan automatically will terminate in 2014, although any Awards outstanding at that time will continue for their term.

**Awards to be Granted to Certain Individuals and Groups**

The number of Awards that an employee or consultant may receive under the 2004 Plan is in the discretion of the Committee and therefore cannot be determined in advance. Our executive officers and our non-employee directors have an interest in this proposal, because they are eligible to receive discretionary Awards under the 2004 Plan.

As of the date of this proxy statement, there has been no determination by the Committee with respect to future awards under the 2004 Plan. Accordingly, future awards are not determinable. The following table, however, sets forth information with respect to the grant of options under the 2004 Plan to the executive officers named in the Summary Compensation Table below, to all current executive officers as a group, to all non-employee directors as a group and to all other employees as a group during the Company's last fiscal year:

<b>Name of Individual or Group</b>	<b>Number of Shares Granted</b>	<b>Average per Share Exercise Price</b>
Kevin Fairbairn	75,000	\$ 16.13
Charles B. Eddy	25,000	16.13
Michael Barnes	120,000	15.81
Luke Marusiak	25,000	16.13
Ralph Kerns	25,000	16.13
All executive officers, as a group	340,000	16.32
All directors who are not executive officers, as a group	70,000	22.18
All employees who are not executive officers, as a group	532,600	18.75

**Summary**

We believe strongly that approval of the amendment to the 2004 Plan is essential to our continued success. Awards such as those provided under the 2004 Plan constitute an important incentive for our key employees and other service providers and help us to attract, retain and motivate people whose skills and performance are critical to our success. Our employees are our most valuable assets. We strongly believe that the 2004 Plan is essential for us to compete for talent in the labor markets in which we operate.

**Required Vote**

The affirmative vote of the holders of a majority of the shares represented and voting at the Annual Meeting (provided that that vote also constitutes the affirmative vote of a majority of the required quorum) will be required for approval of the amendment to add an additional 900,000 shares to the Intevac 2004 Equity Incentive Plan.

**The Board of Directors recommends that shareholders vote FOR the adoption of the amendment to add an additional 900,000 shares to the Intevac 2004 Equity Incentive Plan.**

**Table of Contents****PROPOSAL NO. 4:****RATIFICATION OF INDEPENDENT PUBLIC ACCOUNTANTS**

The Audit Committee of the Board of Directors has selected Grant Thornton LLP as our independent public accountants for the fiscal year ending December 31, 2007. Grant Thornton LLP began auditing our financial statements in 2000. Its representatives are expected to be present at the Annual Meeting, will have an opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

**Required Vote**

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

The affirmative vote of the holders of a majority of the shares represented and voting at the Annual Meeting (provided that that vote also constitutes the affirmative vote of a majority of the required quorum) will be required to ratify the selection of Grant Thornton LLP as Intevac's independent public accountants for the year ending December 31, 2007.

**The Board of Directors recommends that shareholders vote FOR the proposal to ratify the selection of Grant Thornton LLP as Intevac's independent public accountants for the fiscal year ending December 31, 2007.**

**Principal Accountant Fees and Services**

The following table presents fees billed for professional audit services and other services rendered to us by Grant Thornton LLP for the years ended December 31, 2006 and 2005.

	<b>2006</b>	<b>2005</b>
Audit Fees(1)	\$ 901,601	\$ 747,763
Audit-Related Fees(2)	41,955	4,416
Tax Fees(3)	45,575	29,745
All Other Fees(4)	211,860	18,387
Total Fees	\$ 1,200,991	\$ 800,311

- (1) Audit fees consist of fees billed for professional services rendered for the audit of our consolidated annual financial statements and review of the interim consolidated financial statements included in our Quarterly Reports on Form 10-Q and fees for services that are normally provided by Grant Thornton LLP in connection with statutory and regulatory filings or engagements. In addition, audit fees included those fees related to Grant Thornton's audit of the effectiveness of our internal controls over financial reporting pursuant to Section 404 of

the Sarbanes-Oxley Act.

- (2) Audit-related fees consist primarily of accounting consultations that are related to the performance of our audit or review of our consolidated financial statements, as well as services rendered in connection with SEC filings.
- (3) Tax fees consisted of fees billed for tax compliance, consultation and planning services.
- (4) All other fees include a Research & Development Tax Credit Study in 2006 and assistance in responding to audits by the State of California Franchise Tax Board and the State of California Board of Equalization in 2005.

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In making its recommendation to ratify the appointment of Grant Thornton LLP as our independent auditor for the fiscal year ending December 31, 2007, the Audit Committee has considered whether services other than audit and audit-related services provided by Grant Thornton LLP are compatible with maintaining the independence of Grant Thornton LLP and has determined that such services are so compatible.

**Pre-Approval of Audit and Permissible Non-Audit Services**

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

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the ownership of our Common Stock as of February 14, 2007, for each person or entity who is known by us to own beneficially more than 5% of the outstanding shares of our Common Stock, each of the executive officers named in the Summary Compensation Table on page 40, each of our directors and all directors and executive officers of Intevac as a group.

	<b>Common Stock Beneficially Owned(2)</b>	<b>Percentage Beneficially Owned(3)</b>
<b>Principal Stockholders, Executive Officers and Directors(1)</b>		
<b>5% Stockholders:</b>		
Barclays Global Investors(4)	1,184,736	5.6%
T. Rowe Price Associates, Inc(5)	2,098,200	9.9%
<b>Named Executive Officers:</b>		
Kevin Fairbairn(6)	241,887	1.1%
Charles B. Eddy(7)	87,856	*
Michael Barnes(8)	32,864	*
Luke Marusiak(9)	42,819	*
Ralph Kerns(10)	34,674	*
<b>Directors:</b>		
David S. Dury	30,000	*
Stanley J. Hill(11)	18,000	*
Robert Lemos(12)	58,000	*
Arthur L. Money(13)	50,000	*
Norman H. Pond(14)	791,985	3.7%
Ping Yang(15)	7,500	*
All directors and executive officers as a group (13 persons)(16)	1,395,754	6.4%

\* Less than 1%

(1) Unless otherwise indicated in their respective footnote, the address for each listed person is c/o Intevac, Inc., 3560 Bassett Street, Santa Clara, CA 95054

- (2) The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Exchange Act, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares over which the individual or entity has the right to acquire within 60 days of February 14, 2007, through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes, each person or entity has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares shown as beneficially owned.
- (3) The total number of shares of Common Stock outstanding as of February 14, 2007 was 21,296,151.

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- (4) Includes (i) 562,753 shares beneficially owned by Barclays Global Investors, NA, (ii) 608,510 shares beneficially owned by Barclays Global Fund Advisors and (iii) 13,473 shares beneficially owned by Barclays Global Investors, LTD. The address of Barclays Global Investors, NA is 45 Fremont Street, San Francisco, CA 94105. This information was obtained from a filing made with the SEC pursuant to Section 13(g) of the Exchange Act on January 23, 2007.
- (5) These securities are owned by various individual investors and institutional investors which T. Rowe Price Associates, Inc. (Price Associates) serves as investment advisor with power to direct investment and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities. The address of Price Associates is 100 E. Pratt Street, Baltimore, Maryland 21202. This information was obtained from a filing made with the SEC pursuant to Section 13(g) of the Exchange Act on February 14, 2007.
- (6) Includes 224,769 shares subject to options exercisable within 60 days of February 14, 2007.
- (7) Includes 68,266 shares held by the Eddy Family Trust DTD 02/09/00, whose trustees are Charles Brown Eddy III and Melissa White Eddy.
- (8) Includes 32,500 shares subject to options exercisable within 60 days of February 14, 2007.
- (9) Includes 39,500 shares subject to options exercisable within 60 days of February 14, 2007.
- (10) Includes 30,000 shares subject to options exercisable within 60 days of February 14, 2007.
- (11) Includes 18,000 shares subject to options exercisable within 60 days of February 14, 2007.
- (12) Includes 55,000 shares subject to options exercisable within 60 days of February 14, 2007.
- (13) Includes 50,000 shares subject to options exercisable within 60 days of February 14, 2007.
- (14) Includes 759,628 shares held by the Norman Hugh Pond and Natalie Pond Trust DTD 12/23/80 and 22,357 shares held by the Pond 1996 Charitable Remainder Unitrust, both of whose trustees are Norman Hugh Pond and Natalie Pond.
- (15) Includes 7,500 shares subject to options exercisable within 60 days of February 14, 2007.
- (16) Includes 457,269 shares subject to options exercisable within 60 days of February 14, 2007.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities and Exchange Act of 1934 requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities to file with the Securities and Exchange Commission initial reports of ownership on Form 3, and reports of changes in ownership on Form 4 or Form 5, of our Common Stock and other equity securities. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish Intevac with copies of all Section 16(a) forms they file.

## Edgar Filing: INTEVAC INC - Form DEF 14A

Based solely upon review of the copies of such reports furnished to us and written representations that no other reports were required, we believe that during the fiscal year ended December 31, 2006, our officers, directors and holders of more than ten percent of our Common Stock complied with all Section 16(a) filing requirements, with the following exceptions:

- (1) Mr. Aebi filed one late report on a Form 4 covering the exercise of 7,500 shares from a stock option.
- (2) Ms. Burk filed one late report on a Form 4, covering the sale of 7,500 shares of our Common Stock.
- (3) Mr. Lambeth, a former director, filed one late report on a Form 4, covering the sale of 10,000 shares of our Common Stock.



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**EXECUTIVE COMPENSATION AND RELATED INFORMATION**  
**Compensation Discussion and Analysis**

**Introduction**

Intevac, Inc. ( Intevac or the Company ), headquartered in Santa Clara, California, is the world's leading provider of disk sputtering equipment to manufacturers of magnetic media used in hard disk drives. Intevac is also a developer and provider of technology for extreme low light imaging sensors, cameras and systems. In the fiscal year ended December 31, 2006, Intevac's revenues were \$260 million, up 89% from the prior year, and net income increased 184% to \$46 million.

Intevac operates in a high-technology industry, that is characterized by rapidly changing market dynamics (in terms of technology, competitors and customers) and is extremely competitive for talent. In order to be competitive for executives in this market, the Compensation Committee of the Board of Directors (the Compensation Committee ) believes that the compensation programs for our executive officers need to be designed to attract, retain and motivate high-caliber executives. More specifically, the objectives of the compensation programs are to:

Offer a total compensation opportunity that takes into consideration the compensation practices of other companies with which Intevac competes for executive talent;

Provide annual variable incentive awards that take into account Intevac's overall financial performance relative to corporate objectives and that are also based on team and individual contributions; and

Provide significant equity-based, long-term incentives to align the financial interests of the executive officers with those of our shareholders.

The specific compensation principles, components, and decisions designed to achieve these objectives during 2006 are discussed in more detail below.

**Oversight of Executive Compensation**

The executive compensation program is overseen by the Compensation Committee. The role of the Compensation Committee is to act for the Board to oversee compensation of our executive officers and employees and approve and evaluate the executive officers' compensation plans. The specific responsibilities of the Compensation Committee related to executive compensation include:

Approving and evaluating compensation plans for the executive officers (excluding the Chief Executive Officer and Chairman), including:

Base salary

Annual executive bonuses, goals, and payouts

Equity compensation guidelines

Employment agreements and severance provisions (if any)

Any other benefits or employment arrangements for executives

Reviewing the compensation plans, payouts and arrangements for the Chief Executive Officer and Chairman and making recommendations for approval by the Board of Directors

Approving stock option grants and administering the 2004 Equity Incentive Plan or any previous or subsequent plans

Reviewing this Compensation Discussion and Analysis and recommending its inclusion in our Proxy Statement

Overseeing succession plans

The Compensation Committee also recommends director compensation to the Board of Directors.

The Compensation Committee's responsibilities are further defined in its Charter, which is available through our Internet home page, located at [www.intevac.com](http://www.intevac.com).

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### **Executive Compensation Philosophy and Core Principles**

Our compensation structure is designed to attract, retain and motivate high-performing executives. Our general compensation philosophy is that total cash compensation should vary based on achievement of financial and non-financial performance objectives and that long-term incentive compensation should be closely aligned with shareholders' interests through the use of stock-based compensation. Our compensation philosophy is to place a significant portion of compensation at risk based on the performance of the Company and the individual, generally increasing the portion at risk with the responsibility level of the executive.

More specifically, the guiding principles of Intevac's compensation plan design and administration are as follows:

Provide a total compensation package that is generally competitive with our peer group, taking into account differing company sizes and other factors as appropriate.

Align executive compensation with Company performance:

A significant portion of total compensation is tied to annual bonuses, which are dependent on the Company's annual profitability and each executive's performance relative to predetermined business objectives and target financial results set at the beginning of the fiscal year.

A significant portion of total compensation is tied to stock options, which we believe focuses each executive on driving shareholder value over the vesting period of our stock options.

The overall plan is designed to pay executive compensation that will generally be above peer company executive compensation when Intevac's financial performance is above peer company financial performance and to pay executive compensation below peer company executive compensation when Intevac's financial performance is below that of peer companies.

Increase the portion of total compensation based on performance based bonuses and stock options relative to base pay with increasing executive responsibility level.

Align each executive's goals with those of other executives to encourage a team approach to problem solving.

Align executive's interests with those of shareholders.

Provide clear guidelines for each compensation element (base pay, executive incentive pay and stock options), but give the Compensation Committee flexibility to make final decisions based on management recommendations (other than for the Chief Executive Officer and Chairman), and other factors such as experience, contribution to business success and retention needs.

Provide the same benefits to executives as provided to other employees, i.e. executives do not generally receive non-compensation, non-equity special perquisites and benefits.

Executive compensation consists of salary, annual cash incentives (bonus) based on annual results, and stock options with multiple-year (typically four-year) vesting. Each of these elements is described in more detail in the following sections.

### **Compensation Committee Process**

When making individual compensation decisions for executives, the Compensation Committee takes many factors into account, including market pay data as well as each individual's skill, experience, and impact on the organization. The Compensation Committee relies significantly on the Chief Executive Officer's input and recommendations when evaluating these factors relative to the executive officers other than the Chief Executive Officer and Chairman. The Compensation Committee is responsible for approving all compensation arrangements for Named Executive Officers and senior management of the Company, except for the Chief Executive Officer and Chairman.

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All deliberations relating to the Chief Executive Officer's pay are made by the Compensation Committee in executive session, without the Chief Executive Officer present. In assessing the Chief Executive Officer's pay, the Compensation Committee considers the performance of the Company, the Chief Executive Officer's contribution to that performance, and other factors mentioned above for any other executive. The Compensation Committee reviews the Chief Executive Officer's salary, incentive plan payment (consistent with the terms of the plan as described below) and long-term incentive awards each year and makes recommendations to the full Board of Directors for approval.

The Compensation Committee and management jointly engaged the outside services of Compensia in December 2005 to review the Company's Executive Compensation Program relative to the market data and based on Compensia's experience. Compensia reported in January 2006 on target pay levels relative to base salaries, total cash compensation (base plus bonus) and total direct compensation and on pay program designs. In December 2006, Mercer Human Resource Consulting was selected as the compensation consultant to the Compensation Committee and management.

## **Competitive Market Data**

The Compensation Committee evaluates the competitive market for pay for Intevac's executives with the assistance of our human resources department and outside consultants hired by the Compensation Committee. The human resources department and the Compensation Committee's advisors utilize executive compensation data drawn from targeted peer companies (the Peer Companies) and from nationally recognized surveys of executive pay among high-technology companies, with an emphasis on similarly-sized technology companies and companies with which Intevac competes for executive talent. The market compensation levels for comparable positions are examined as part of the process to determine base salary, target incentives and annual stock option grants.

The specific Peer Companies used by Intevac to evaluate market compensation positioning for executives in making 2006 compensation decisions were selected based on their global presence, technical sophistication, global manufacturing and sales distribution. The peer group consists of the following companies:

ADE Corporation	August Technology Corporation
CyberOptics Corporation	Electro Scientific Industries
Electroglas, Inc.	FSI International, Inc.
Kopin Corporation	LTX Corporation
Mattson Technology, Inc.	Nanometrics Incorporated
Photon Dynamics, Inc.	Pixelworks, Inc.
Therma-Wave, Inc.	Ultratech, Inc.

The Compensation Committee also reviewed the number of equity shares granted to each level of executives, directors and employees among the following companies before making final decisions on stock option grants during 2006:

ADE Corporation	Brooks Automation
Electro Scientific Industries	FEI
Hutchinson	Kopin Corporation
LTX Corporation	Mattson Technology, Inc.
Photon Dynamics, Inc.	Ultratech, Inc.
Veeco	Wind River

The additional companies were selected based on similarly-sized technology companies.

**Compensation Components**

The three major components of Intevac's executive officer compensation are:

Base salary;

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Performance-based annual bonus (the Executive Incentive Plan), which is paid in cash; and

Periodic grants of long-term, equity-based incentives, currently stock options with four-year vesting,

With the exception of the Company's Chief Executive Officer, Intevac has not entered into employment agreements with any of the executive officers. The Company does not provide any benefits or other perquisites to executives other than the basic health and welfare benefits available to employees generally.

***Base Salary:***

The Company's philosophy is that base salaries should meet the objective of attracting and retaining the executive talent needed to run the business by providing a level of regular cash compensation for day-to-day responsibilities and services to the Company that is commensurate with the contribution and impact of each executive. Therefore, the Compensation Committee determines the base salary and annual increases for each executive based on the individual's level of responsibility, skill, experience, and performance.

Base salary adjustments can affect the value of other compensation elements. A higher base salary may result in a higher annual incentive, assuming the same level of achievement against goals. Mr. Fairbairn's base salary also affects the level of his severance and change-in-control benefit, per his employment agreement, as discussed below.

In February 2006, the Compensation Committee increased Mr. Fairbairn's base salary from \$363,635 to \$381,825 based on the Company's strong financial and operational performance in 2005. In addition, after taking into consideration the compensation targets established with the independent compensation consultant, and Mr. Fairbairn's recommendations, the Compensation Committee increased the base salaries of each of the named executive officers identified in the Summary Compensation Table, with the exception of Mr. Barnes, who was hired by the Company in February 2006.

***Bonus:***

The Company provides an annual cash bonus to executive officers and other management employees. The total amount payable under the Executive Incentive Plan (EIP) is determined based on the Company's financial performance. The objective of EIP is to align an executive's pay results with the actual short-term business performance of the Company in achieving financial and non-financial objectives.

*Target Bonuses:* Executive officers and other EIP participants are assigned a Target Bonus, computed by multiplying each EIP participant's base pay times their Target Bonus Percentage. Target Bonus Percentages are determined based on competitive market data, internal equity considerations, and the degree of difficulty associated with achieving plan performance levels. For 2006, Target Bonus Percentages for the CEO and the other Named Executive Officers were as follows:

<b>Executive</b>	<b>Target Bonus as a Percent of Base Salary</b>
Kevin Fairbairn, Chief Executive Officer, President	200%
Charles B. Eddy III, Chief Financial Officer,	70%

Principal Accounting Officer, Secretary, Treasurer, Vice President of Administration and of Finance	
Luke Marusiak, Chief Operating Officer	70%
Michael Barnes, Chief Technical Officer	70%
Ralph Kerns, Vice President, Business Development	70%

*Incentive Plan Funding:* The size of the pool from which EIP bonuses are paid (the EIP Bonus Pool ) is calculated by multiplying a percentage (the Bonus Pool Percentage ) times Intevac s annual pre-tax earnings. The Compensation Committee sets the Bonus Pool Percentage at the beginning of each year after taking into consideration the Company s planned profitability, the total amount required to pay EIP bonuses at the target level and competitive survey data on incentive bonuses. Accordingly, under or over achievement of annual plan pre-tax profit target results in a reduction or increase to the EIP Bonus Pool. If there is no pre-tax profit, then there is no EIP Bonus Pool and no EIP



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bonus payments are made. The Compensation Committee reserves the right to exclude any extraordinary or unusual items, gains or losses when determining the Bonus Pool Percentage.

For example, in early 2006, the Bonus Pool Percentage approved by the Compensation Committee when multiplied by the Company's projected 2006 pretax earnings per the Company's annual operating plan, did not provide sufficient funding to pay EIP bonuses at the target level. Accordingly, management had to exceed 2006 plan profitability in order to earn EIP bonuses at the target level. However, actual pretax profits for 2006 were more than twice the company's original pretax profit projection and resulted in EIP bonuses that were significantly higher than target.

The Incentive Pool Factor is calculated at the end of the plan period and is based upon the size of the Bonus Pool relative to anticipated bonus payments. For example, if the Bonus Pool only has enough funds to pay 50% of all anticipated bonus payments, then the Incentive Pool Factor will be 50%. Conversely, if the Company beats its plan and the resulting Bonus Pools is 150% funded, then the Incentive Pool Factor would be 150%.

*Individual Allocation:* The Bonus Pool is shared by director-level employees, vice presidents, the chief operating officer, the chief technical officer, the chief financial officer and the chief executive officer. Each participant is assigned a Target Bonus Percentage as a percentage of base salary, with the individual target varying based on level of responsibility. The allocation of the actual bonus payment for each individual is calculated by applying the Incentive Pool Factor and a management by objectives factor (the MBO Performance Factor) to each participant's Target Bonus Percentage. For example, if a participant's base pay earned during plan year was \$200,000 and their Target Bonus Percentage was 70%, then their Target Bonus would be \$140,000. If MBO performance was 90% and the Incentive Pool Factor was 120%, then the actual bonus result would be \$151,200.

MBO goals and weighting factors are established for each participant in four areas:

*Business Results:* Goals include items such as orders, revenues, profitability, cash management, quality related metrics, cycle-time metrics and other finance related metrics that may be targeted for improvement.

*Market Development:* Goals include items such as market share, new customers gained for particular products, and completion of comprehensive marketing and sales plans for gaining additional business or higher gross margins.

*Product Excellence:* Goals include items such as target completion dates for new products or improved products, material cost and reliability goals for new products, product yield improvements, field product performance and other measures as appropriate to encourage product excellence for the Company.

*Strategic Initiatives:* Goals include items such as business process improvements, employee reviews, employee development, safety goals and other measures needed to support the growth of the Company.

Metrics with clear performance objectives are established in these areas for each of our two business groups and for each individual at the beginning of the year. These MBO plans are approved by the Compensation Committee in the first quarter of the fiscal year. All MBO participants within a business group (Equipment or Imaging) share some common MBO goals tied to their specific business group performance, but the goals are weighted differently for each individual. The weighting factor of each MBO goal reflects the ability of a participant to impact results. Shared goals reinforce the teamwork required to achieve results. MBO results are evaluated at the end of each year based on performance against the goals established in the first quarter, and adjusted on a qualitative basis by the CEO and approved by the Compensation Committee. The MBO Performance Factor for each EIP participant is determined by calculating a weighted average of that individual's performance against their MBO goals.

The MBO assessment for the Chief Executive Officer is based upon a weighting of the aggregate Equipment and Imaging business MBO results. Other corporate MBO participants' results are based upon weighting of business group results plus MBO results relating to their corporate responsibility.

The Compensation Committee reserves the right to make adjustments to these formula-based payouts, as it deems appropriate, to maintain both appropriate pay-for-performance equity and competitive pay practices.

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***Stock Options:***

The goal of Intevac's executive stock options is to align the interests of the Company's executives with the long-term interests of the Company's shareholders and to provide executives with incentive to manage the Company from the perspective of an owner with an equity stake in the business.

*Stock Option Terms:* The Company's stock options allow our executives to acquire shares of our Common Stock at a fixed price per share (the closing market price on the grant date) and have a 10-year term (subject to earlier termination following the executive's cessation of service with Intevac). Options granted to executives vest in four equal annual installments, as measured from the option grant date.

*Stock Option Grants:* The Compensation Committee's grants options to executives and certain other key employees shortly after their start date in accordance with the Company's 2004 Equity Incentive Plan. Guidelines for the number of options granted are reviewed annually and changes are made based on market data. The Compensation Committee typically grants additional stock options annually to executives and other selected employees.

The Chief Executive Officer approves stock option grants recommended by human resources for each employee, including executives other than the Chief Executive Officer, prior to submission to the Compensation Committee for approval. The Compensation Committee approves the grants at meetings or by unanimous written consent. In the case of written consents, the grant date is the date of the consent, or such later date as specified in the consent. In approving individual grants, the Compensation Committee takes into account each individual's recent performance, level of responsibility, job assignment, the competitive climate, market data and other factors that the Compensation Committee may deem significant, at its discretion.

In order to determine the overall level of stock option grants to executives, employees, and directors, the Compensation Committee reviews factors such as outstanding stock options, the number of shares in the 2004 Equity Incentive Plan available to grant, stock option overhang as a percent of Common Stock outstanding, competitive market practices and the projected compensation expense related to employee stock options.

*Timing of Option Grants:* Proposed option grants for new employees that have started their employment at the Company are proposed by human resources to the Chief Executive Officer and then submitted monthly to the Compensation Committee for approval. Stock option grants for these new employees are submitted for approval each month by unanimous written consent to the Compensation Committee, with options typically granted on the third Thursday of each month. The option price is set based on the closing stock price the day the option is granted.

For annual renewal grants to executives and key employees, grants are reviewed at a Compensation Committee meeting. The timing of the grant depends on business conditions, company performance, the competitive climate, market data, cost of the grants and other appropriate factors as determined by the Compensation Committee. Annual renewal grants are only made on days when the Company's Trading Window for insiders is open. The Company's Trading Window opens the third business day after quarterly earnings have been released, and closes at the end of the last day of the second month of each quarter. The date of annual option grants to members of the Board of Directors is the first trading day following the Annual Meeting of the Company during which the Company's Trading Window is open.

The Company's policy is not to make stock option grants during such times as management and/or the Compensation Committee may be in possession of material, non-public information. In 2006, all renewal grants were made on August 30, 2006.

**Benefits and Perquisites**

The Company provides its executives the same benefits and perquisites that it offers its employees. These standard employee benefits include participation in the Company's 401(k) plan, medical, dental, and life insurance benefits, each with the same terms and conditions available to employees generally. The Company does not provide any benefits or perquisites to the executive officers that are not available to the majority of employees.

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### **Termination of Employment and Severance Arrangements**

With the exception of Mr. Fairbairn, none of Intevac's executive officers have an employment agreement with the Company. Employment of all of our executive officers may be terminated at any time at the discretion of the Board of Directors. The terms of Mr. Fairbairn's employment agreement are described in the section entitled "Employment Contracts, Termination of Employment and Change-in-Control Agreements." The Compensation Committee believes that entering into the employment agreement with Mr. Fairbairn was necessary to attract and retain Mr. Fairbairn.

### **Compliance with Internal Revenue Code Section 162(m)**

Under Section 162(m) of the Internal Revenue Service Code, Intevac receives a federal income tax deduction for compensation paid to each of our Chief Executive Officer and the four other Named Executive Officers only if the compensation paid to the individual executive is less than \$1 million during any fiscal year or is performance-based as defined under Section 162(m). Intevac's 1995 Stock Option/Stock Issuance Plan, 2004 Equity Incentive Plan, and the Executive Incentive Plan permit our Compensation Committee to grant equity compensation that is considered performance-based and thus fully tax-deductible under IRC Section 162(m). Our Compensation Committee currently intends to continue seeking a tax deduction for all of our executive compensation, to the extent we determine it is in the best interests of Intevac.

### **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee of our Board of Directors was formed September 14, 1995 and during 2006 was comprised of Robert Lemos, Dr. Lambeth (until his resignation from the Board in April 2006), Arthur Money and Ping Yang. None of these individuals was at any time during fiscal 2006, or at any other time, an officer or employee of Intevac. None of our executive officers serves as a member of the board of directors or compensation committee of any other entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

### **Report of the Compensation Committee**

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

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

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

Robert Lemos (Chairman)  
Arthur L. Money  
Ping Yang



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**Summary Compensation Table**

The following table presents information concerning the total compensation of Intevac's Chief Executive Officer, Chief Financial Officer and each of the three most highly compensated officers during the last fiscal year (the "Named Executive Officers") for services rendered to Intevac in all capacities for the fiscal year ended December 31, 2006.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Awards (\$)	Award (\$)(1)	Non-Equity Incentive Plan Compensation (\$)(2)	Change in Pension Value and Nonqualified Deferred Compensation (\$)	All Other Compensation (\$)	Total