

SECURITIES AND EXCHANGE COMMISSION

FORM 10-12G/A

Initial general form for registration of a class of securities pursuant to Section 12(g) [amend]

Filing Date: **2001-07-17**
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FILER

VIALTA INC

CIK: **1141363** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-12G/A** | Act: **34** | File No.: **000-32809** | Film No.: **1682644**
SIC: **6770** Blank checks

Business Address
*48461 FREMONT BLVD
FREMONT CA 94538
5104921980*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 2

TO

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES

PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

VIALTA, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<TABLE>

<S>

<C>

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

94-3337326
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

</TABLE>

48461 FREMONT BOULEVARD
FREMONT, CALIFORNIA 94538
(ADDRESS, INCLUDING ZIP CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

(510) 492-1980
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

SECURITIES TO BE REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

CLASS A COMMON STOCK, PAR VALUE \$0.001 PER SHARE
CLASS B COMMON STOCK, PAR VALUE \$0.001 PER SHARE

VIALTA, INC.

INFORMATION INCLUDED IN INFORMATION STATEMENT
AND INCORPORATED IN FORM 10 BY REFERENCE

CROSS-REFERENCE SHEET BETWEEN INFORMATION STATEMENT
AND ITEMS OF FORM 10

ITEM NO.	CAPTION	LOCATION IN INFORMATION STATEMENT
<S> 1.	<C> Business	<C> "Summary," "The Distribution," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business"
2.	Financial Information	"Summary," "Summary Consolidated Financial Data," "Selected Consolidated Financial Data," "Consolidated Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations"
3.	Properties	"Business -- Facilities"
4.	Securities Ownership of Vialta's Beneficial Owners and Management	"The Distribution" and "Management"
5.	Directors and Executive Officers	"Management"
6.	Executive Compensation	"Management"
7.	Vialta's Relationships and Related Transactions	"Related Party Transactions" and "Management"
8.	Legal Proceedings	"Business -- Legal Proceedings"
9.	Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters	"The Distribution," "Dividend Policy" and "Description of Capital Stock"
10.	Recent Sales of Unregistered Securities	Not Included (see below)
11.	Description of Registrant's Securities to be Registered	"The Distribution," "Dividend Policy" and "Description of Capital Stock"
12.	Indemnification of Directors and Officers	"Management -- Limitations of Liability and Indemnification of Officers and Directors" and "Related Party Transactions"
13.	Financial Statements and Supplementary Data	"Consolidated Financial Statements" and "Index to Consolidated Financial Statements"
14.	Changes In and Disagreements with Accountants on Accounting and Financial Matters	Not Applicable
15.	Financial Statements and Exhibits	"Consolidated Financial Statements" and "Index to Consolidated Financial Statements"

ITEM 10. RECENT SALES OF UNREGISTERED SECURITIES

The following is a summary of transactions by the Registrant since April 20, 1999 (the date the Registrant was incorporated) involving sales of the

Registrant's securities that were not registered under the Securities Act of 1933.

In August 1999, the Registrant issued 100 shares of common stock to ESS Technology, Inc. The shares were issued at a price of \$0.05 per share, for an aggregate purchase price of \$5.00. In connection with the recapitalization of the Registrant in July 2001, these shares were converted into the same number of shares of Class A common stock.

In September 1999, the Registrant issued an aggregate of 40,000,000 shares of its Series A preferred stock to ESS Technology, Inc. The shares were issued at a price of \$0.25 per share, for an aggregate purchase price of \$10,000,000. In connection with the recapitalization, these shares were converted into the same number of shares of Class A common stock.

From December 1999 to March 2000, the Registrant issued an aggregate of 51,000,000 shares of its Series B preferred stock to 11 investors, including ESS Technology, Inc., and Evershine XVI, L.P. (an entity controlled by a trust for the benefit of the children of Fred S.L. Chan, Chairman and Chief Executive Officer of the Registrant). The shares were issued at a per share price of \$2.60, for an aggregate purchase price of \$132,600,000. In connection with the recapitalization, the 20,000,000 shares of Series B preferred stock issued to ESS were converted into the same number of shares of Class A common stock and the 31,000,000 shares of Series B preferred stock issued to the other investors were converted into 34,100,000 shares of Class B common stock.

From October 1999 to December 1999, the Registrant issued an aggregate of 6,220,000 shares of common stock to seven investors, including ESS, Mr. Chan, three ESS employees, a consultant to ESS and the Registrant, and an employee of a vendor that serves both ESS and the Registrant. The shares were issued at a price of \$0.25 per share, for an aggregate purchase price of \$1,555,000. In connection with the recapitalization, the 400,000 shares of common stock issued to ESS were converted into the same number of shares of Class A common stock and the 5,820,000 shares of common stock issued to the other investors were converted into 6,402,000 shares of Class B common stock.

All of the securities in the above transactions were issued in reliance on Rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act of 1933 as transactions not involving a public offering. The Registrant issued its common stock to a limited number of investors in isolated, private transactions. Neither the Registrant nor any person acting on the Registrant's behalf offered or sold those securities by any form of general solicitation or general advertising. The Registrant took reasonable care to assure that the purchasers were sophisticated investors or had a pre-existing business or personal relationship with the Registrant or the Registrant's management, that they were acquiring the securities for their own accounts, for investment purposes only, and not with a view to resale, that the purchasers received written disclosure that such capital stock was not registered under the Securities Act of 1933 and could not be resold without registration (or an available exemption therefrom), and that all certificates representing the securities included a legend setting forth the foregoing restrictions on transfer.

As of June 30, 2001, options to purchase an aggregate of 3,793,600 shares of common stock had been issued under the Registrant's 1999 Stock Incentive Plan and 2000 Directors Stock Option Plan, and an aggregate of 21,250 shares of common stock had been issued upon exercise of those options as of that date. The Registrant relied on Rule 701 for all option grants and related option exercises as the options and shares were issued in connection with a written compensatory benefit plan established for the benefit of the Registrant's employees, directors and officers. In connection with the recapitalization, all outstanding options became exercisable upon vesting for shares of Class A common stock. The 21,250 shares of common stock that had been issued upon exercise of options were exchanged for 23,375 shares of Class B common stock.

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ITEM 15. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial statements filed as part of this registration statement.

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(b) Exhibits

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EXHIBIT NUMBER	DESCRIPTION
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2.1	Form of Master Distribution Agreement between the Registrant and ESS Technology, Inc.
2.2	Form of Master Technology Ownership and License Agreement between the Registrant and ESS Technology, Inc.
2.3	Form of Employee Matters Agreement between the Registrant and ESS Technology, Inc.
2.4	Form of Tax Sharing and Indemnity Agreement between the Registrant and ESS Technology, Inc.
2.5	Form of Real Estate Matters Agreement between the Registrant and ESS Technology, Inc.
2.6	Form of Master Confidential Disclosure Agreement between the Registrant and ESS Technology, Inc.
2.7	Form of Master Transitional Services Agreement between the

	Registrant and ESS Technology, Inc.
3.1+	Certificate of Incorporation of the Registrant
3.2+	Bylaws of the Registrant
3.3*	Amended and Restated Certificate of Incorporation of the Registrant
3.4*	Amended and Restated Bylaws of the Registrant
4.1*	Form of Class A Common Stock Certificate of the Registrant
4.2*	Form of Class B Common Stock Certificate of the Registrant
10.1+	1999 Stock Incentive Plan
10.2+	2000 Directors Stock Option Plan
10.3	2001 Nonstatutory Stock Option Plan
10.4	2001 Employee Stock Purchase Plan
10.5	Lease Agreement between the Registrant and ESS Technology, Inc. for the premises located at 48461 Fremont Boulevard, Fremont, California
10.6	Purchase Agreement between the Registrant and ESS Technology, Inc.
10.7	DVD Manufacturing License Agreement between the Registrant and Macrovision Corporation
10.8+	Offer Letter Agreement between the Registrant and Charles Root
10.9	Lease Agreement between the Registrant and 235 Investments Limited for the premises located at 235 Yorkland Boulevard, Ontario, Canada
10.10	Lease Agreement between Vialta.com Hong Kong Company Limited and Upcentre Investments Limited for the premises located at 238 Nathan Road, Kowloon, Hong Kong
10.11+	Trademark License Agreement between the Registrant and Digital Theater Systems, Inc.
10.12+	Software License Agreement between the Registrant and EnReach Technology, Inc.
10.13	Offer Letter Agreement between the Registrant and Didier Pietri
10.14+	Agreement among the Registrant, ESS Technology, Inc. and Komodo Technology, Inc.

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EXHIBIT

NUMBER	DESCRIPTION
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21.1+	Subsidiaries of the Registrant
99.1	Vialta, Inc. Information Statement

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+ Previously filed.

*To be filed by Amendment.

EXPLANATORY NOTE

This registration statement on Form 10 has been prepared on a prospective basis on the assumption that, among other things, the distribution by ESS Technology, Inc. of shares of the Registrant's Class A common stock and the related transactions expected to occur prior to or at the same time as the distribution will be completed as described in the information statement attached as Exhibit 99.1 to this registration statement. The information statement is a part of this registration statement and is specifically incorporated by reference into this registration statement. There can be no assurance that the distribution and the related transactions will be completed or will be completed as so described. The Registrant will file an amendment or supplement to this registration statement to reflect any significant changes to the distribution or the related transactions.

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 16, 2001

VIALTA, INC.

By: /s/ FRED S.L. CHAN

Name: Fred S.L. Chan
Title: Chairman and Chief
Executive Officer

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- 2.2 Form of Master Technology Ownership and License Agreement between the Registrant and ESS Technology, Inc.
- 2.3 Form of Employee Matters Agreement between the Registrant and ESS Technology, Inc.
- 2.4 Form of Tax Sharing and Indemnity Agreement between the Registrant and ESS Technology, Inc.
- 2.5 Form of Real Estate Matters Agreement between the Registrant and ESS Technology, Inc.
- 2.6 Form of Master Confidential Disclosure Agreement between the Registrant and ESS Technology, Inc.
- 2.7 Form of Master Transitional Services Agreement between the Registrant and ESS Technology, Inc.
- 3.1+ Certificate of Incorporation of the Registrant
- 3.2+ Bylaws of the Registrant
- 3.3* Amended and Restated Certificate of Incorporation of the Registrant
- 3.4* Amended and Restated Bylaws of the Registrant
- 4.1* Form of Class A Common Stock Certificate of the Registrant
- 4.2* Form of Class B Common Stock Certificate of the Registrant
- 10.1+ 1999 Stock Incentive Plan
- 10.2+ 2000 Directors Stock Option Plan
- 10.3 2001 Nonstatutory Stock Option Plan
- 10.4 2001 Employee Stock Purchase Plan
- 10.5 Lease Agreement between the Registrant and ESS Technology, Inc. for the premises located at 48461 Fremont Boulevard, Fremont, California
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10.11+	Trademark License Agreement between the Registrant and Digital Theater Systems, Inc.
10.12+	Software License Agreement between the Registrant and EnReach Technology, Inc.
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10.14+	Agreement among the Registrant, ESS Technology, Inc. and Komodo Technology, Inc.
21.1+	Subsidiaries of the Registrant
99.1	Vialta, Inc. Information Statement

</TABLE>

+ Previously filed.

* To be filed by Amendment.

MASTER DISTRIBUTION AGREEMENT

BETWEEN

ESS TECHNOLOGY, INC.

AND

VIALTA, INC.

EFFECTIVE AS OF

_____, 2001

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Exhibit B	Certificate of Secretary of Vialta
Exhibit C	Master Technology Ownership and License Agreement
Exhibit D	Employee Matters Agreement

Exhibit E	Tax Sharing and Indemnity Agreement
Exhibit F	Real Estate Matters Agreement
Exhibit G	Master Confidential Disclosure Agreement
Exhibit H	Master Transitional Services Agreement

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MASTER DISTRIBUTION AGREEMENT

This Master Distribution Agreement (this "AGREEMENT") is entered into as of _____, 2001, between ESS Technology, Inc., a California corporation ("ESS TECHNOLOGY"), and Vialta, Inc., a Delaware corporation ("VIALTA"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in ARTICLE VI hereof. ESS Technology and Vialta are sometimes referred to herein individually as a "party" or collectively as the "parties."

RECITALS

WHEREAS, ESS Technology currently owns approximately 62% of the issued and outstanding capital stock of Vialta;

WHEREAS, the Board of Directors of ESS Technology has determined that it is appropriate and desirable on the terms and conditions contemplated hereby to distribute to the holders of its common stock, by means of a pro rata distribution, approximately 51,460,881 of the shares of Vialta Class A common stock owned by ESS Technology (the "DISTRIBUTION"); and

WHEREAS, the parties intend in this Agreement, including the Exhibits and Schedules hereto, to set forth the principal arrangements between them regarding the Distribution.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth below, the parties hereto, intending to be legally bound, agree as follows:

ARTICLE I

DISTRIBUTION

SECTION 1.1 DISTRIBUTION DATE. Unless otherwise provided in this Agreement, or in any agreement to be executed in connection with this Agreement, the effective time and date of agreement in connection with the Distribution shall be 12:01 a.m., Pacific Time, [August 10], 2001 or such other date as may be fixed by the Board of Directors of ESS Technology (the "DISTRIBUTION DATE").

SECTION 1.2 CLOSING OF TRANSACTIONS. Unless otherwise provided herein, the closing of the transactions contemplated in ARTICLE II shall occur by the lodging of each of the executed instruments of transfer, assumptions of liability, undertakings, agreements, instruments or other documents executed or to be executed with both Orrick Herrington & Sutcliffe LLP ("ORRICK"), 1020 Marsh Road, Menlo Park, California 94025, and Gray Cary Ware & Freidenrich LLP ("GRAY CARY"), 400 Capitol Mall, Suite 2400, Sacramento, California 95814, to be held in escrow for delivery as provided in SECTION 1.3 of this Agreement.

SECTION 1.3 EXCHANGE OF SECRETARY'S CERTIFICATES. Upon receipt of a certificate of the Secretary or an Assistant Secretary of ESS Technology in the form attached to this Agreement as EXHIBIT A, Orrick shall deliver to Vialta on behalf of ESS Technology all of the items required to be delivered by ESS Technology hereunder pursuant to SECTION 2.1 of this Agreement and each such

item shall be deemed to be delivered to Vialta as of the Distribution Date upon delivery of such certificate. Upon receipt of a certificate of the Secretary or an Assistant Secretary of Vialta in the form attached to this Agreement as EXHIBIT B, Gray Cary shall deliver to ESS Technology on behalf of Vialta all of the items required to be delivered by Vialta pursuant to SECTION 2.2 hereunder and each such item shall be deemed to be delivered to ESS Technology as of the Distribution Date upon receipt of such certificate.

ARTICLE II

DOCUMENTS AND ITEMS TO BE DELIVERED ON OR BEFORE THE DISTRIBUTION DATE

SECTION 2.1 DOCUMENTS TO BE DELIVERED BY ESS TECHNOLOGY. On or before the Distribution Date, ESS Technology will deliver, or will cause its appropriate Subsidiaries to deliver, to Vialta all of the following items and agreements (collectively, together with all agreements and documents contemplated by such agreements, the "ANCILLARY AGREEMENTS"):

(a) A duly executed Master Technology Ownership and License Agreement substantially in the form attached hereto as EXHIBIT C;

(b) A duly executed Employee Matters Agreement substantially in the form attached hereto as EXHIBIT D;

(c) A duly executed Tax Sharing and Indemnity Agreement substantially in the form attached hereto as EXHIBIT E;

(d) A duly executed Real Estate Matters Agreement substantially in the form attached hereto as EXHIBIT F;

(e) A duly executed Master Confidential Disclosure Agreement substantially in the form attached hereto as EXHIBIT G;

(f) A duly executed Master Transitional Services Agreement substantially in the form attached hereto as EXHIBIT H;

(g) Resignations of each person who is an officer or director of any member of the Vialta Group immediately prior to the Distribution Date, but who will be an officer, director or employee of only ESS Technology from and after the Distribution Date; and

(h) Such other agreements, documents or instruments as the parties may agree are necessary or desirable in order to achieve the purposes hereof, including, without limitation, all Transitional Service Schedules to the Master Transitional Services Agreement and those documents referred to in SECTION 4.2.

SECTION 2.2 DOCUMENTS TO BE DELIVERED BY VIALTA. As of the Distribution Date, Vialta will or will cause its appropriate Subsidiaries to deliver to ESS Technology all of the following:

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(a) In each case where Vialta is a party to any agreement or instrument referred to in SECTION 2.1, a duly executed counterpart of such agreement or instrument; and

(b) Resignations of each person who is an officer or director of any member of the ESS Technology Group immediately prior to the Distribution Date, but who will be an officer, director or employee of only Vialta from and after the Distribution Date.

ARTICLE III

SECTION 3.1 TRANSACTIONS PRIOR TO THE DISTRIBUTION. Subject to the conditions specified in SECTION 3.3 and SECTION 3.4, ESS Technology and Vialta shall use their reasonable commercial efforts to consummate the Distribution. Such efforts shall include, but not necessarily be limited to, those specified in this SECTION 3.1

(a) Registration Statement. Vialta, with the cooperation and assistance of ESS Technology, shall register its Class A and Class B common stock under Section 12 of the Securities Exchange Act of 1934 (the "EXCHANGE ACT") by filing a Form 10 Registration Statement, and such amendments or supplements thereto, as may be necessary in order to cause the same to become and remain effective as required by law, including, but not limited to, filing such amendments to the Form 10 Registration Statement as may be required by the Securities and Exchange Commission (the "COMMISSION") or federal, state or foreign securities laws. ESS Technology and Vialta shall also cooperate in preparing and filing with the Commission any registration statements or amendments thereof which are required to reflect the establishment of, or amendments to, any employee benefit and other plans necessary or appropriate in connection with the Distribution or the other transactions contemplated by this Agreement.

(b) Information Statement. ESS Technology and Vialta shall prepare and mail, prior to the Distribution Date, to the holders of common stock of ESS Technology, such information concerning Vialta and the Distribution and such other matters as ESS Technology and Vialta shall reasonably determine are necessary and as may be required by law. ESS Technology and Vialta will prepare, and Vialta will, to the extent required under applicable law, file with the Commission any such documentation which ESS Technology and Vialta reasonably determine is necessary or desirable to effectuate the Distribution, and ESS Technology and Vialta shall each use its reasonable commercial efforts to obtain all necessary approvals from the Commission with respect thereto as soon as practicable.

(c) Other Matters. ESS Technology and Vialta shall consult with each other and their financial advisors regarding the timing, pricing and other material matters with respect to the Distribution.

(d) Blue Sky. ESS Technology and Vialta shall take all such actions as may be necessary or appropriate under the securities or blue sky laws of the United States (and any comparable laws under any foreign jurisdiction) in connection with the Distribution.

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(e) OTC Bulletin Board. Vialta shall use its reasonable commercial efforts to (i) to make its Class A Common Stock an OTCBB-eligible security (pursuant to NASD Rule 6530) and (ii) to assist an eligible market maker in the submission of any forms or filings required by the NASD in order to permit the reporting of trades of Vialta's Class A Common Stock on the OTC Bulletin Board service.

SECTION 3.2 THE DISTRIBUTION.

(a) Delivery of Shares for Distribution. Subject to SECTION 3.3 hereof, on or prior to the date the Distribution is effective (the "DISTRIBUTION DATE"), ESS Technology will deliver to the distribution agent (the "DISTRIBUTION AGENT") to be appointed by ESS Technology to distribute to the shareholders of ESS Technology approximately 51,460,881 shares of Class A common stock of Vialta held by ESS Technology pursuant to the Distribution for the benefit of holders of record of common stock of ESS Technology on the Record Date, a single stock certificate, endorsed by ESS Technology in blank, representing that number of

shares equal to:

(i) the product of (x) the number of shares of ESS Technology common stock outstanding on the Record Date multiplied by (y) the Distribution Ratio; plus

(ii) the number of shares of ESS Technology common stock equal to the number of holders of ESS Technology common stock on the Record Date;

and shall cause the transfer agent for the shares of common stock of ESS Technology to instruct the Distribution Agent to distribute on the Distribution Date the appropriate number of such shares of Class A common stock of Vialta to each such holder or designated transferee or transferees of such holder.

(b) Distribution Ratio. The "DISTRIBUTION RATIO" shall be equal to a fraction:

(i) the numerator of which is

- A. the number of shares of Class A common stock of Vialta beneficially owned by ESS Technology on the Record Date; reduced by
- B. the number of holders of options to purchase ESS Technology common stock on the Record Date; and reduced by
- C. the number of holders of ESS Technology common stock on the Record Date; and

(ii) the denominator of which is

- A. the number of shares of common stock of ESS Technology outstanding on the Record Date; plus
- B. the number of options to purchase ESS Technology common stock on the Record Date.

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(c) Delivery of Shares for Vialta Nonstatutory Stock Option Plan. Subject to Section 3.3 hereof, as soon as practicable after the Distribution Date, ESS Technology will deliver to Vialta a single stock certificate, endorsed by ESS Technology in blank, representing that number of shares equal to:

(i) the product of (x) the number of shares subject to options to purchase shares of ESS Technology common stock outstanding on the Record Date multiplied by (y) the Distribution Ratio; plus

(ii) the number of shares of ESS Technology common stock equal to the number of holders of options to purchase ESS Technology common stock outstanding on the Record Date;

in order that Vialta may reserve such shares for issuance under its 2001 Nonstatutory Stock Option Plan.

(d) Shares Received. Subject to SECTIONS 3.3 and 3.5, each holder of common stock of ESS Technology on the Record Date (or such holder's designated transferee or transferees) will be entitled to receive in the Distribution a number of shares of Class A common stock of Vialta equal to the number of shares of common stock of ESS Technology held by such holder on the Record Date multiplied by a fraction (x) the numerator of which is (i) the number of shares of Class A common stock of Vialta beneficially owned by ESS Technology on the Record Date reduced by (ii) the number of holders of options to purchase ESS Technology common stock on the Record Date reduced by (iii) the number of ESS Technology shareholders on the Record Date and (y) the denominator of which is (i) the number of shares of common stock of ESS Technology outstanding on the

Record Date plus (ii) the number of options to purchase ESS Technology common stock on the Record Date.

(e) Obligation to Provide Information. Vialta and ESS Technology, as the case may be, will provide to the Distribution Agent all share certificates and any information required in order to complete the Distribution on the basis specified above.

(f) Conditions. ESS Technology and Vialta shall take all reasonable steps necessary and appropriate to cause the conditions set forth in SECTION 3.3 to be satisfied and to effect the Distribution on the Distribution Date.

SECTION 3.3 CONDITIONS TO DISTRIBUTION. The parties hereto shall use their reasonable commercial efforts to effect the Distribution prior to [August 10], 2001, or as soon thereafter as practicable. The obligations of the parties to consummate the Distribution shall be conditioned on the satisfaction, or written waiver by ESS Technology, of the following conditions:

(a) Government Approvals. Any material governmental approvals and consents necessary to consummate the Distribution shall have been obtained and be in full force and effect;

(b) Registration Statement. The Form 10 Registration Statement shall have been filed and become effective, and there shall be no stop-order in effect with respect thereto.

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(c) OTC Bulletin Board. Trades in the common stock of Vialta shall be permitted to be reported on the OTCBB.

(d) No Legal Restraints. No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Distribution or any of the other transactions contemplated by this Agreement shall be in effect.

(e) Other Actions. Such other actions as the parties hereto may, based upon the advice of counsel, reasonably request to be taken prior to the Distribution in order to assure the successful completion of the Distribution shall have been taken.

(f) No Termination. This Agreement shall not have been terminated.

SECTION 3.4 SOLE DISCRETION OF ESS TECHNOLOGY. ESS Technology currently intends to complete the Distribution by [August 10], 2001. ESS Technology shall, in its sole and absolute discretion, determine the date of the consummation of the Distribution and all terms of the Distribution, including, without limitation, the form, structure and terms of any transaction(s) and/or offering(s) to effect the Distribution and the timing of and conditions to the consummation of the Distribution. In addition, ESS Technology may at any time and from time to time until the completion of the Distribution modify or change the terms of the Distribution, including, without limitation, by accelerating or delaying the timing of the consummation of all or part of the Distribution. Vialta shall cooperate with ESS Technology in all respects to accomplish the Distribution and shall, at ESS Technology's direction, promptly take any and all actions necessary or desirable to effect the Distribution, including, without limitation, the registration under the Securities Act of the Class A and B common stock of Vialta on an appropriate registration form or forms to be designated by ESS Technology. ESS Technology shall select any investment banker(s) and manager(s) in connection with the Distribution, as well as any financial printer, solicitation and/or exchange agent and outside counsel for ESS Technology; provided, however, that nothing herein shall prohibit Vialta from engaging its own financial, legal, accounting and other advisors in connection with the Distribution.

SECTION 3.5 FRACTIONAL SHARES. No fractional shares will be issued. As soon as practicable after the Record Date, ESS Technology shall direct the Distribution Agent to determine the number of whole shares allocable to each holder of record or beneficial owner of common stock of ESS Technology as of the Record Date determined by rounding up fractional shares to the nearest whole share. ESS Technology and the Distribution Agent shall use their reasonable commercial efforts to aggregate the shares of common stock of ESS Technology that may be held by any beneficial owner thereof through more than one account in determining the fractional share allocable to such beneficial owner.

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ARTICLE IV

COVENANTS AND OTHER MATTERS

SECTION 4.1 OTHER AGREEMENTS. In addition to the specific agreements, documents and instruments that are Exhibits to this Agreement, ESS Technology and Vialta agree to execute or cause to be executed by the appropriate parties and deliver, as appropriate, such other agreements, instruments and documents as may be necessary or desirable in order to effect the purposes of this Agreement and the Ancillary Agreements.

SECTION 4.2 AGREEMENT FOR EXCHANGE OF INFORMATION. Each of ESS Technology and Vialta agrees to provide, or cause to be provided, to each other, at any time before or after the Distribution Date, as soon as reasonably practicable after written request therefor, any Information in the possession or under the control of such party that the requesting party reasonably needs (i) to comply with reporting, disclosure, filing or other requirements imposed on the requesting party (including under applicable securities laws) by a Governmental Authority having jurisdiction over the requesting party, (ii) for use in any other judicial, regulatory, administrative or other proceeding or in order to satisfy audit, accounting, claims, regulatory, litigation or other similar requirements, (iii) to comply with its obligations under this Agreement or any Ancillary Agreement or (iv) in connection with the ongoing businesses of ESS Technology or Vialta, as the case may be; provided, however, that in the event that any party determines that any such provision of Information could be commercially detrimental, violate any law or agreement, or waive any attorney-client privilege, the parties shall take all reasonable measures to permit the compliance with such obligations in a manner that avoids any such harm or consequence.

(a) Internal Accounting Controls; Financial Information. Until the seventh anniversary of the Distribution Date, (i) each party shall maintain in effect at its own cost and expense adequate systems and controls for its business to the extent necessary to enable the other party to satisfy its reporting, accounting, audit and other obligations, and (ii) each party shall provide, or cause to be provided, to the other party and its Subsidiaries in such form as such requesting party shall request, at no charge to the requesting party, all financial and other data and information as the requesting party determines necessary or advisable in order to prepare its financial statements and reports or filings with any Governmental Authority.

(b) Ownership of Information. Any Information owned by a party that is provided to a requesting party pursuant to this SECTION 4.2 shall be deemed to remain the property of the providing party. Unless specifically set forth herein, nothing contained in this Agreement shall be construed as granting or conferring rights of license or otherwise in any such Information.

(c) Record Retention. To facilitate the possible exchange of Information pursuant to this SECTION 4.2 and other provisions of this Agreement after the Distribution Date, each party agrees to use its reasonable commercial efforts to retain all tax, employee and financial Information in their

respective possession or control on the Distribution Date for seven years after the Distribution Date. No party will destroy, or permit any of its Subsidiaries to destroy, any Information that exists on the Distribution Date (other than Information that is permitted to be destroyed under the current record retention policy of such party) without first using its reasonable commercial efforts to notify the

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other party of the proposed destruction and giving the other party the opportunity to take possession of such Information prior to such destruction.

(d) Limitation of Liability. No party shall have any liability to any other party in the event that any Information exchanged or provided pursuant to this SECTION 4.2 is found to be inaccurate, in the absence of willful misconduct by the party providing such Information. No party shall have any liability to any other party if any Information is destroyed or lost after reasonable commercial efforts by such party to comply with the provisions of SECTION 4.2(c).

(e) Other Agreements Providing For Exchange of Information. The rights and obligations granted under this SECTION 4.2 are subject to any specific limitations, qualifications or additional provisions on the sharing, exchange or confidential treatment of Information set forth in this Agreement and any Ancillary Agreement.

(f) Production of Witnesses; Records; Cooperation. After the Distribution Date, except in the case of a legal or other proceeding by one party against another party (which shall be governed by such discovery rules as may be applicable under SECTION 4.6 or otherwise), each party hereto shall use its reasonable commercial efforts to make available to each other party, upon written request, the former, current and future directors, officers, employees, other personnel and agents of such party as witnesses and any books, records or other documents within its control or which it otherwise has the ability to make available, to the extent that any such person (giving consideration to business demands of such directors, officers, employees, other personnel and agents) or books, records or other documents may reasonably be required in connection with any legal, administrative or other proceeding in which the requesting party may from time to time be involved, regardless of whether such legal, administrative or other proceeding is a matter with respect to which indemnification may be sought hereunder. The requesting party shall bear all costs and expenses in connection therewith.

SECTION 4.3 AUDITORS AND AUDITS; ANNUAL AND QUARTERLY STATEMENTS AND ACCOUNTING. Each party agrees that, for so long as ESS Technology is required by any governmental entity or regulatory body to include Vialta's results of operations and financial position in ESS Technology's financial reports, including but not limited to its audited financial statements:

(a) Selection of Auditors. Vialta shall not select an accounting firm other than a nationally recognized accounting firm to serve as its (and its Subsidiaries') independent certified public accountants ("VIALTA'S AUDITORS") for purposes of providing an opinion on its consolidated financial statements without ESS Technology's prior written consent (which shall not be unreasonably withheld).

(b) Date of Auditors' Opinion and Quarterly Reviews. Vialta shall use its reasonable commercial efforts to enable the Vialta Auditors to complete their audit such that they will date their opinion on Vialta's audited annual financial statements on the same date that ESS Technology's independent certified public accountants ("ESS TECHNOLOGY'S AUDITORS") date their opinion on ESS Technology's audited annual financial statements, and to enable ESS Technology to meet its timetable for the printing, filing and public

Vialta shall use its reasonable commercial efforts to enable the Vialta Auditors to complete their quarterly review procedures such that they will provide clearance on Vialta's quarterly financial statements on the same date that ESS Technology's Auditors provide clearance on ESS Technology's quarterly financial statements.

(c) Annual and Quarterly Financial Statements. Vialta shall provide to ESS Technology on a timely basis all Information that ESS Technology reasonably requires to meet its schedule for the preparation, printing, filing, and public dissemination of ESS Technology's annual and quarterly financial statements. Without limiting the generality of the foregoing, Vialta will provide all required financial Information with respect to Vialta and its Subsidiaries to Vialta's Auditors in a sufficient and reasonable time and in sufficient detail to permit Vialta's Auditors to take all steps and perform all reviews necessary to provide sufficient assistance to ESS Technology's Auditors with respect to Information to be included or contained in ESS Technology's annual and quarterly financial statements. Similarly, ESS Technology shall provide to Vialta on a timely basis all Information that Vialta reasonably requires to meet its schedule for the preparation, printing, filing and public dissemination of Vialta's annual and quarterly financial statements. Without limiting the generality of the foregoing, ESS Technology will provide all required financial Information with respect to ESS Technology and its Subsidiaries to ESS Technology's Auditors in a sufficient and reasonable time and in sufficient detail to permit ESS Technology's Auditors to take all steps and perform all reviews necessary to provide sufficient assistance to Vialta's Auditors with respect to Information to be included or contained in Vialta's annual and quarterly financial statements.

(d) Identity of Personnel Performing the Annual Audit and Quarterly Reviews. Vialta shall authorize Vialta's Auditors to make available to ESS Technology's Auditors both the personnel who performed or are performing the annual audits and quarterly reviews of Vialta and work papers related to the annual audits and quarterly reviews of Vialta, in all cases within a reasonable time prior to Vialta's Auditors' opinion date, so that ESS Technology's Auditors are able to perform the procedures they consider necessary to take responsibility for the work of Vialta's Auditors as it relates to ESS Technology's Auditors' report on ESS Technology's financial statements, all within sufficient time to enable ESS Technology to meet its timetable for the printing, filing and public dissemination of ESS Technology's annual and quarterly statements. Similarly, ESS Technology shall authorize ESS Technology's Auditors to make available to Vialta's Auditors both the personnel who performed or are performing the annual audits and quarterly reviews of ESS Technology and work papers related to the annual audits and quarterly reviews of ESS Technology, in all cases within a reasonable time prior to ESS Technology's Auditors' opinion date, so that Vialta's Auditors are able to perform the procedures they consider necessary to take responsibility for the work of ESS Technology's Auditors as it relates to Vialta's Auditors' report on Vialta's statements, all within sufficient time to enable Vialta to meet its timetable for the printing, filing and public dissemination of Vialta's annual and quarterly financial statements.

(e) Access to Books and Records. Vialta shall provide ESS Technology's internal auditors and their designees access to Vialta's and its Subsidiaries' books and records so that ESS Technology may conduct reasonable audits relating to the financial statements provided by Vialta pursuant hereto as well as to the internal accounting controls and operations of Vialta and its Subsidiaries. Similarly, ESS Technology shall provide Vialta's internal auditors and their designees

access to ESS Technology's and its Subsidiaries' books and records so that Vialta may conduct reasonable audits relating to the financial statements provided by ESS Technology pursuant hereto as well as to the internal accounting controls and operations of ESS Technology and its Subsidiaries.

(f) Notice of Change in Accounting Principles. Vialta shall give ESS Technology as much prior notice as reasonably practical of any proposed determination of, or any significant changes in, its accounting estimates or accounting principles from those in effect on the Distribution Date. Vialta will consult with ESS Technology and, if requested by ESS Technology, Vialta will consult with ESS Technology's independent public accountants with respect thereto. ESS Technology shall give Vialta as much prior notice as reasonably practical of any proposed determination of, or any significant changes in, its accounting estimates or accounting principles from those in effect on the Distribution Date.

(g) Conflict with Third-Party Agreements. Nothing in SECTIONS 4.2 and 4.3 shall require Vialta to violate any agreement with any third parties regarding the confidentiality of confidential and proprietary Information relating to that third party or its business.

SECTION 4.4 CONSISTENCY WITH PAST PRACTICES. At all times prior to the Distribution Date, ESS Technology will cause Vialta to continue its research and development efforts, ship products, make payments, maintain properties, manage distribution channels and otherwise conduct business in the ordinary course, consistent with past practices.

SECTION 4.5 PAYMENT OF EXPENSES. Except as otherwise provided in this Agreement, the Ancillary Agreements or any other agreement between the parties relating to the Distribution, all costs and expenses of the parties hereto in connection with the Distribution (excluding internal costs and expenses of Vialta) shall be paid by ESS Technology.

SECTION 4.6 DISPUTE RESOLUTION. Resolution of any and all disputes, claims and causes of action of any nature whatsoever (collectively, "DISPUTES"), arising from or in connection with this Agreement, shall be exclusively governed by and settled in accordance with the provisions of this SECTION 4.6.

(a) Negotiation. The parties shall make a good faith attempt to resolve any Dispute arising out of or relating to this Agreement through informal negotiation between appropriate representatives from each of ESS Technology and Vialta. If at any time either party feels that such negotiations are not leading to a resolution of the Dispute, such party may send a notice to the other party describing the Dispute and requesting a meeting of the senior executives from each party. Within ten (10) business days after such notice is given, each party shall select appropriate senior executives (e.g., director or V.P. level) of each party who shall have the authority to resolve the matter and shall meet to attempt in good faith to negotiate a resolution of the Dispute prior to pursuing other available remedies. During the course of negotiations under this SECTION 4.6(a), all reasonable requests made by one party to the other for information, including requests for copies of relevant documents, will be honored. The specific format for such negotiations will be left to the discretion of the designated negotiating senior executives but may include the preparation of agreed upon statements of fact or written statements of position furnished to the other party. In the event that any Dispute arising out of or related to this Agreement is not settled by the parties within thirty

(30) days after the first meeting of the negotiating senior executives, either party may commence litigation with respect to the Dispute. However, except as provided below in SECTION 4.6(b), neither party shall commence litigation against the other party to resolve the Dispute (i) until the parties try in good faith to settle the Dispute by negotiation for at least thirty (30) days after the first meeting of the negotiating senior executives or (ii) until forty (40) days after notice of a Dispute is given by either party to the other party, whichever occurs first.

(b) Proceedings. Any Dispute regarding the following is not required to be negotiated prior to seeking relief from a court of competent jurisdiction: breach of any obligation of confidentiality; infringement, misappropriation, or misuse of any intellectual property right; or any other claim where interim relief from the court is sought to prevent serious and irreparable injury to a party. However, the parties shall make a good faith effort to negotiate such Dispute, according to SECTION 4.6(a), while such court action is pending.

(c) Continuity of Service and Performance. Unless otherwise agreed in writing, the parties will continue to provide service and honor all other commitments under this Agreement and each Ancillary Agreement during the course of dispute resolution pursuant to the provisions of this SECTION 4.6 with respect to all matters not subject to such dispute, controversy or claim.

SECTION 4.7 GOVERNMENTAL APPROVALS. To the extent that the Distribution requires any Governmental Approvals, the parties will use their reasonable commercial efforts to obtain any such Governmental Approvals.

SECTION 4.8 REPRESENTATIONS AND WARRANTIES OF ESS TECHNOLOGY. ESS Technology hereby represents and warrants to Vialta as follows:

(a) Organization, Good Standing and Qualification. ESS Technology is a corporation duly organized, validly existing and in good standing under the laws of the State of California and has all requisite corporate power and authority to carry on its business as currently conducted. ESS Technology is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on the Vialta's business or properties.

(b) Corporate Power. ESS Technology has all requisite legal and corporate power to (i) execute and deliver this Agreement, the Ancillary Agreements and all applicable exhibits and schedules attached hereto and thereto at such times as are contemplated by this Agreement and the Ancillary Agreements; and (ii) perform its obligations hereunder and thereunder.

(c) Due Authorization Execution and Enforceability. The execution, delivery and performance of this Agreement and the Ancillary Agreements by ESS Technology have been duly authorized by all necessary corporate or other actions, ESS Technology has duly and validly executed and delivered this Agreement and the Ancillary Agreements, and this Agreement and the Ancillary Agreements are the legal, valid and binding obligations of ESS Technology, enforceable against ESS Technology in accordance with their respective terms subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

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SECTION 4.9 REPRESENTATIONS AND WARRANTIES OF VIALTA. Vialta hereby represents and warrants to ESS Technology as follows:

(a) Organization, Good Standing and Qualification. Vialta is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to

carry on its business as currently conducted.

(b) Corporate Power. Vialta has all requisite legal and corporate power to (i) execute and deliver this Agreement, the Ancillary Agreements and all applicable exhibits and schedules attached hereto and thereto at such times as are contemplated by this Agreement and the Ancillary Agreements; and (ii) perform its obligations hereunder and thereunder.

(c) Due Authorization Execution and Enforceability. The execution, delivery and performance of this Agreement and the Ancillary Agreements by Vialta have been duly authorized by all necessary corporate or other actions, Vialta has duly and validly executed and delivered this Agreement and the Ancillary Agreements, and this Agreement and the Ancillary Agreements are the legal, valid and binding obligations of Vialta, enforceable against Vialta in accordance with their respective terms subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

SECTION 4.10 COOPERATION IN OBTAINING NEW AGREEMENTS. ESS Technology understands that, prior to the Distribution Date, Vialta has derived benefits under certain agreements between ESS Technology and third parties, which agreements are not being assigned to Vialta in connection with the Distribution. Upon the request of Vialta, ESS Technology agrees to make introductions to appropriate Vialta personnel to ESS Technology's contacts at such third parties, and agrees to provide reasonable assistance to Vialta, at ESS Technology's own expense, so that Vialta may obtain agreements from such third parties under substantially equivalent terms and conditions, including financial terms and conditions, that apply to ESS Technology. Such assistance may include, but is not limited to, (i) requesting and encouraging such third parties to enter into such agreements with Vialta, (ii) attending meetings and negotiating sessions with Vialta and such third parties, and (iii) participating in buying consortiums with Vialta. If there are any agreements between ESS Technology and third parties that are being assigned to Vialta by ESS Technology in connection with the Distribution, ESS Technology agrees to assist Vialta in seeking and obtaining the consent of such third parties to such assignment.

4.11 INSURANCE MATTERS.

(a) Vialta Insurance Coverage After the Distribution Date. From and after the Distribution Date, Vialta shall be responsible for obtaining and maintaining insurance programs for its risk of loss and such insurance arrangements shall be separate and apart from ESS's insurance programs. Notwithstanding the foregoing, ESS, upon the request of Vialta, shall use all reasonable efforts to assist Vialta in the transition to its own separate insurance programs from and after the Distribution Date, and shall provide Vialta with any information that is in the possession of ESS and would in any way facilitate Vialta's ability to either obtain insurance coverages for Vialta or to assist Vialta in preventing unintended self-insurance, in whatever form.

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(b) Cooperation and Agreement not to Release Carriers. Each of ESS and Vialta will share such information as is reasonably necessary in order to permit the other to manage and conduct its insurance matters in an orderly fashion. Each of ESS and Vialta, at the request of the other, shall cooperate with and use reasonable efforts to assist the other in recoveries for claims made under any insurance policy for the benefit of any insured party, and neither ESS nor Vialta, nor any of their Subsidiaries, shall take any action which would intentionally jeopardize or otherwise interfere with either party's ability to collect any proceeds payable pursuant to any insurance policy. Except as otherwise contemplated by this Distribution Agreement or any Ancillary Agreement, after the Distribution Date, neither ESS nor Vialta shall (and shall ensure that no member of their respective Groups shall), without the consent of the other, provide any insurance carrier with a release, or amend, modify or

waive any rights under any such policy or agreement, if such release, amendment, modification or waiver would adversely affect any rights or potential rights of any member of the other Group thereunder. However, nothing in this Section 4.11(b) shall (i) preclude any member of any Group from presenting any claim or from exhausting any policy limit, (ii) require any member of any Group to pay any premium or other amount or to incur any Liability, or (iii) require any member of any Group to renew, extend or continue any policy in force.

(c) Procedures With Respect to Insured Vialta Liabilities.

(i) Insurance Pursuit. ESS shall obtain Vialta's prior approval, which approval shall not be unreasonably withheld, prior to independently pursuing insurance recoveries from Insurance Policies for Insured Vialta Liabilities. All such efforts shall be at ESS's sole cost and expense.

(ii) Management of Claims. Except as otherwise inconsistent with the provisions of any applicable Insurance Policy, the defense of claims, suits or actions giving rise to potential or actual Insured Vialta Liabilities will be managed (in conjunction with ESS's insurers, as appropriate) by the representative of Vialta that would have had responsibility for managing such claims, suits or actions had such Insured Vialta Liabilities been Vialta Liabilities.

(d) Procedures With Respect to Insured ESS Liabilities.

(i) Insurance Pursuit. Vialta shall obtain ESS' prior approval, which approval shall not be unreasonably withheld, prior to pursuing insurance recoveries from Insurance Policies for Insured ESS Liabilities. All such efforts shall be at Vialta's sole cost and expense.

(ii) Management of Claims. Except as otherwise inconsistent with the provisions of any applicable Insurance Policy, the defense of claims, suits or actions giving rise to potential or actual Insured ESS Liabilities will be managed (in conjunction with Vialta's insurers, as appropriate) by the representative of ESS that would have had responsibility for managing such claims, suits or actions had such Insured ESS Liabilities been ESS Liabilities.

(e) Cooperation. ESS and Vialta will cooperate with each other in all respects, and they shall execute any additional documents which are reasonably necessary, to effectuate the provisions of this Section 4.11.

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(f) No Assignment or Waiver. This Agreement shall not be considered as an attempted assignment of any policy of insurance or as a contract of insurance and shall not be construed to waive any right or remedy of any member of the ESS Group or the Vialta Group in respect of any Insurance Policy or any other contract or policy of insurance.

(g) No Liability. Vialta does hereby, for itself and as agent for each other member of the Vialta Group, agree that no member of the ESS Group shall have any Liability whatsoever as a result of the insurance policies and practices of ESS and its Subsidiaries as in effect at any time after the Distribution Date, including without limitation as a result of the level or scope of any such insurance, the creditworthiness of any insurance carrier, the terms and conditions of any policy, the adequacy or timeliness of any notice to any insurance carrier with respect to any claim or potential claim or otherwise.

(h) Further Agreements. The Parties acknowledge that they intend to allocate financial obligations without violating any laws regarding insurance, self-insurance or other financial responsibility. If it is determined that any action undertaken pursuant to this Distribution Agreement or any Ancillary Agreement is violative of any insurance, self-insurance or related financial responsibility law or regulation, the parties agree to work together to do

whatever is necessary to comply with such law or regulation while trying to accomplish, as much as possible, the allocation of financial obligations as intended in this Distribution Agreement and any Ancillary Agreement.

ARTICLE V

MISCELLANEOUS

SECTION 5.1 LIMITATION OF LIABILITY. IN NO EVENT SHALL ANY MEMBER OF THE ESS TECHNOLOGY GROUP OR VIALTA GROUP BE LIABLE TO ANY OTHER MEMBER OF THE ESS TECHNOLOGY GROUP OR VIALTA GROUP FOR ANY SPECIAL, CONSEQUENTIAL, INDIRECT, INCIDENTAL OR PUNITIVE DAMAGES OR LOST PROFITS, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE) ARISING IN ANY WAY OUT OF THIS AGREEMENT, WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

SECTION 5.2 ENTIRE AGREEMENT. This Agreement, the other Ancillary Agreements and the Exhibits and Schedules referenced or attached hereto and thereto, constitute the entire agreement between the parties with respect to the subject matter hereof and shall supersede all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof.

SECTION 5.3 GOVERNING LAW. This Agreement shall be construed in accordance with and all Disputes hereunder shall be governed by the laws of the State of California, excluding its conflict of law rules. The Superior Court of Santa Clara County and/or the United States District Court for the Northern District of California, San Jose Division, shall have jurisdiction and venue over all Disputes between the parties that are permitted to be brought in a court of law pursuant to SECTION 4.6 above.

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SECTION 5.4 TERMINATION. This Agreement and all Ancillary Agreements may be terminated and the Distribution abandoned at any time prior to the Distribution Date by and in the sole discretion of ESS Technology without the approval of Vialta. In the event of termination pursuant to this SECTION 5.4, no party shall have any liability of any kind to the other party.

SECTION 5.5 NOTICES. Any notice, demand, offer, request or other communication required or permitted to be given by either party pursuant to the terms of this Agreement shall be in writing and shall be deemed effectively given the earlier of (i) when received, (ii) when delivered personally, (iii) one (1) Business Day after being delivered by facsimile (with receipt of appropriate confirmation), (iv) one (1) Business Day after being deposited with a nationally recognized overnight courier service or (v) four (4) days after being deposited in the U.S. mail, First Class with postage prepaid, and addressed to the attention of:

If to ESS Technology, Inc.:

ESS Technology, Inc.
48401 Fremont Boulevard
Fremont, CA 94538
Attention: Chief Executive Officer
Facsimile No.: (510) 492-1098

with a copy to:

Orrick Herrington & Sutcliffe LLP
1020 Marsh Road
Menlo Park, CA 94025
Attention: Peter Cohn
Facsimile No.: (650) 614-7401

If to Vialta:

Vialta, Inc.
48461 Fremont Boulevard
Fremont, CA 94538
Attention: Chief Executive Officer
Facsimile No.: (510) 492-1980

with a copy to:

Gray Cary Ware & Freidenrich LLP
400 Capitol Mall, Suite 2400
Sacramento, CA 95814
Attention: Michelle Rowe Hallsten
Facsimile No.: (916) 930-3201

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ESS Technology and Vialta may substitute a different address or facsimile number, from time to time, if such substitute is provided to the intended notice recipient in writing by notice given in the manner provided in this SECTION 5.5.

SECTION 5.6 COUNTERPARTS. This Agreement, including the Schedules and Exhibits hereto and the other documents referred to herein, may be executed via facsimile or otherwise in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

SECTION 5.7 BINDING EFFECT; ASSIGNMENT. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives and successors, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement. This Agreement may be enforced separately by each member of the ESS Technology Group and each member of the Vialta Group. Except as herein specifically provided to the contrary, neither party may assign this Agreement or any rights or obligations hereunder, without the prior written consent of the other party, and any such assignment shall be void; provided, however, either party (or its permitted successive assignees or transferees hereunder) may assign or transfer this Agreement as a whole without consent to an entity that succeeds to all or substantially all of the business or assets of such party to which this Agreement relates.

SECTION 5.8 SEVERABILITY. The parties hereto have negotiated and prepared the terms of this Agreement in good faith with the intent that each and every one of the terms, covenants and conditions herein be binding upon and inure to the benefit of the respective parties. Accordingly, if any one or more of the terms, provisions, promises, covenants or conditions of this Agreement or the application thereof to any person or circumstance shall be adjudged to any extent invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, such provision shall be as narrowly construed as possible, and each and all of the remaining terms, provisions, promises, covenants and conditions of this Agreement or their application to other persons or circumstances shall not be affected thereby and shall be valid and enforceable to the fullest extent permitted by law. To the extent this Agreement is in violation of applicable law, then the parties agree to negotiate in good faith to amend the Agreement, to the extent possible consistent with its purposes, to conform to law.

SECTION 5.9 WAIVER OF BREACH. The waiver by either party hereto of a breach or violation of any provision of this Agreement shall not operate as, or be construed to constitute, a waiver of any subsequent breach of the same or another provision hereof.

SECTION 5.10 AMENDMENT AND EXECUTION. This Agreement and amendments hereto shall be in writing and executed in multiple copies via facsimile or otherwise on behalf of ESS Technology and Vialta by their respective duly authorized officers and representatives. Each multiple copy shall be deemed an original, but all multiple copies together shall constitute one and the same instrument.

SECTION 5.11 DESCRIPTIVE HEADINGS. The headings contained in this Agreement, in any Exhibit or Schedule hereto and in the table of contents to this Agreement are for reference purposes

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only and shall not affect in any way the meaning or interpretation of this Agreement. Any capitalized term used in any Schedule or Exhibit but not otherwise defined therein, shall have the meaning assigned to such term in this Agreement. When a reference is made in this Agreement to an Article or a Section, Exhibit or Schedule, such reference shall be to an Article or Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated.

SECTION 5.12 GENDER AND NUMBER. Whenever the context of this Agreement requires, the gender of all words herein shall include the masculine, feminine and neuter, and the number of all words herein shall include the singular and plural.

SECTION 5.13 ADDITIONAL ASSURANCES. Except as may be specifically provided herein to the contrary, the provisions of this Agreement shall be self-operative and shall not require further agreement by the parties; provided, however, at the request of either party, the other party shall execute such additional instruments and take such additional acts as are reasonable, and as the requesting party may reasonably deem necessary, to effectuate this Agreement.

SECTION 5.14 FORCE MAJEURE. Neither party shall be liable or deemed to be in default for any delay or failure in performance under this Agreement or other interruption of service deemed to result, directly or indirectly, from acts of God, civil or military authority, acts of public enemy, war, accidents, explosions, earthquakes, floods, failure of transportation, strikes or other work interruptions by either party's employees, or any other similar cause beyond the reasonable control of either party unless such delay or failure in performance is expressly addressed elsewhere in this Agreement.

SECTION 5.15 CONFLICTING AGREEMENTS. In the event of conflict between this Agreement and any Ancillary Agreement executed in connection herewith, the provisions of such Ancillary Agreement shall prevail.

ARTICLE VI

DEFINITIONS

SECTION 6.1 ANCILLARY AGREEMENTS. "ANCILLARY AGREEMENTS" has the meaning set forth in SECTION 2.1 hereof.

SECTION 6.2 BUSINESS DAY. "BUSINESS DAY" means a day other than a Saturday, a Sunday or a day on which banking institutions located in the State of California are authorized or obligated by law or executive order to close.

SECTION 6.3 CODE. "CODE" has the meaning set forth in the Recitals hereof.

SECTION 6.4 COMMISSION. "COMMISSION" has the meaning set forth in SECTION 3.1(a) hereof.

SECTION 6.5 DISPUTES. "Disputes" has the meaning set forth in SECTION 4.6 hereof.

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SECTION 6.6 DISTRIBUTION. "Distribution" means Mellon Investor Services.

SECTION 6.7 DISTRIBUTION AGENT. "Distribution Agent" has the meaning set forth in SECTION 3.2 hereof.

SECTION 6.8 DISTRIBUTION DATE. "Distribution Date" has the meaning set forth in SECTION 3.2 hereof.

SECTION 6.9 Distribution Ratio. "Distribution Ratio" has the meaning set forth in SECTION 3.2 hereof.

SECTION 6.10 ESS LIABILITIES

"ESS LIABILITIES" means any liability arising from the action or inaction of any one or more members of the ESS Technology Group.

SECTION 6.11 ESS TECHNOLOGY GROUP. "ESS TECHNOLOGY GROUP" means ESS Technology and each Subsidiary of ESS Technology (other than any member of the Vialta Group) immediately after the Distribution Date, and each Person that becomes a Subsidiary of ESS Technology after the Distribution Date.

SECTION 6.12 ESS TECHNOLOGY'S AUDITORS. "ESS TECHNOLOGY'S AUDITORS" has the meaning set forth in SECTION 4.3(b) hereof.

SECTION 6.13 EXCHANGE ACT. "EXCHANGE ACT" has the meaning set forth in SECTION 3.1(a) hereof.

SECTION 6.14 FORM 10 REGISTRATION STATEMENT. "FORM 10 REGISTRATION STATEMENT" shall mean the Form 10 Registration Statement described in SECTION 3.1(a) including any amendments or supplements thereto.

SECTION 6.15 GAAP. "GAAP" means generally accepted accounting principals promulgated by the Financial Accounting Standards Board, in effect on the Distribution Date, consistently applied.

SECTION 6.16 GOVERNMENTAL APPROVALS. "GOVERNMENTAL APPROVALS" means any notices, reports or other filings to be made, or any consents, registrations, approvals, permits or authorizations to be obtained from, any Governmental Authority.

SECTION 6.17 GOVERNMENTAL AUTHORITY. "GOVERNMENTAL AUTHORITY" shall mean any federal, state, local, foreign or international court, government, department, commission, board, bureau, agency, official or other regulatory, administrative or governmental authority.

SECTION 6.18 GRAY CARY. "GRAY CARY" has the meaning set for in SECTION 1.2 hereof.

SECTION 6.19 INFORMATION. "INFORMATION" means information, whether or not patentable or copyrightable, in written, oral, electronic or other tangible or intangible forms, stored in any

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medium, including studies, reports, records, books, contracts, instruments, surveys, discoveries, ideas, concepts, know-how, techniques, designs, specifications, drawings, blueprints, diagrams, models, prototypes, samples, flow charts, data, computer data, disks, diskettes, tapes, computer programs or other software, marketing plans, customer names, communications by or to

attorneys (including attorney-client privileged communications), memos and other materials prepared by attorneys or under their direction (including attorney work product), and other technical, financial, employee or business information or data.

SECTION 6.20 INSURANCE POLICIES

"INSURANCE POLICIES" means insurance policies pursuant to which a Person makes a true risk transfer to an insurer. "INSURED VIALTA LIABILITIES" means any Vialta Liabilities to the extent covered under the terms of ESS's Insurance Policies.

SECTION 6.22 INSURED ESS LIABILITIES

"INSURED ESS LIABILITIES" means any ESS Liabilities to the extent covered under the terms of Vialta's Insurance Policies.

SECTION 6.23 LIABILITIES

"LIABILITIES" means all debts, liabilities, guarantees, assurances, commitments and obligations, whether fixed, contingent or absolute, asserted or unasserted, matured or unmatured, liquidated or unliquidated, accrued or not accrued, known or unknown, due or to become due, whenever or however arising (including, without limitation, whether arising out of any contract or tort based on negligence or strict liability) and whether or not the same would be required by generally accepted principles and accounting policies to be reflected in financial statements or disclosed in the notes thereto.

SECTION 6.24 PERSON. "PERSON" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

SECTION 6.25 RECORD DATE. "RECORD DATE" means the close of business on the date to be determined by the Board of Directors of ESS Technology as the record date for determining the shareholders of ESS Technology entitled to receive shares of Class A common stock of Vialta in the Distribution.

SECTION 6.26 SUBSIDIARY. "SUBSIDIARY" means with respect to any specified Person, any corporation, any limited liability company, any partnership or other legal entity of which such Person or its Subsidiaries owns, directly or indirectly, more than 50% of the stock or other equity interest entitled to vote on the election of the members of the board of directors or similar governing body.

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SECTION 6.27 TRANSITIONAL SERVICE SCHEDULES. "TRANSITIONAL SERVICE SCHEDULES" shall have the meaning set forth in Article 2 of the Master Transitional Services Agreement.

SECTION 6.28 VIALTA'S AUDITORS. "VIALTA'S AUDITORS" has the meaning set forth in SECTION 4.3(a) hereof.

SECTION 6.29 VIALTA GROUP. "VIALTA GROUP" means Vialta and each Subsidiary of Vialta immediately after the Distribution Date and each Person that becomes a Subsidiary of Vialta after the Distribution Date.

SECTION 6.30 VIALTA LIABILITIES

"VIALTA LIABILITIES" shall mean any liabilities arising from the action or inaction of any one or more members of the Vialta Group.

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WHEREFORE, the parties have signed this Master Distribution Agreement effective as of the date first set forth above.

ESS TECHNOLOGY, INC.

VIALTA, INC.

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

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EXHIBIT A

CERTIFICATE OF SECRETARY OF ESS TECHNOLOGY

As provided in the Master Distribution Agreement dated effective as of _____, 2001 between ESS Technology, Inc., a California corporation ("ESS Technology"), and Vialta, a Delaware corporation (the "Agreement"), the undersigned Secretary of ESS Technology hereby certifies that ESS Technology directs Orrick Herrington & Sutcliffe, LLP, to make the deliveries and receipts on behalf of ESS Technology as provided in Section 1.3 of the Agreement.

Secretary

Dated: _____, 2001

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EXHIBIT B

CERTIFICATE OF SECRETARY OF VIALTA

As provided in the Master Distribution Agreement dated effective as of _____, 2001 between ESS Technology, Inc., a California corporation, and Vialta, a Delaware corporation ("Vialta") (the "Agreement"), the undersigned Secretary of Vialta hereby certifies that Vialta directs Gray Cary Ware & Freidenrich LLP to make the deliveries and receipts on behalf of Vialta as provided in Section 1.3 of the Agreement.

Secretary

Dated: _____, 2001

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EXHIBIT C
MASTER TECHNOLOGY OWNERSHIP AND LICENSE AGREEMENT

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EXHIBIT D
EMPLOYEE MATTERS AGREEMENT

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EXHIBIT E
TAX SHARING AND INDEMNITY AGREEMENT

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EXHIBIT F
REAL ESTATE MATTERS AGREEMENT

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EXHIBIT G
MASTER CONFIDENTIAL DISCLOSURE AGREEMENT

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EXHIBIT H
MASTER TRANSITIONAL SERVICES AGREEMENT

MASTER TECHNOLOGY OWNERSHIP AND LICENSE AGREEMENT

This Master Technology Ownership and License Agreement (the "AGREEMENT") is entered into as of July __, 2001 by and between ESS Technology, Inc., a California corporation ("ESS") and Vialta, Inc., a Delaware corporation ("VIALTA").

RECITAL

In connection with entering into a Distribution Agreement concurrently herewith, ESS and Vialta wish to acknowledge and memorialize their agreements with respect to world-wide ownership of Technology and other intellectual property existing as of the Distribution Date.

AGREEMENT

1. Definitions. The following terms, when capitalized herein, shall have the meanings set forth below in this Section 1. Unless indicated otherwise, all other capitalized terms which are used but are not otherwise defined herein shall have the meanings ascribed to them in the Distribution Agreement.

1.1 "ACCESS BROWSER SOFTWARE PROGRAM" means a Browser that includes any of the software licensed under the agreement between Access Co., Ltd, a Japanese corporation and Vialta.com dated August 1, 1996.

1.2 "APPLICATION SOFTWARE" means software code, in source and object code form, primarily designed to perform one or more specific functions directly for the user or for another application program. "APPLICATION SOFTWARE" shall also mean programmer notes and documentation specifically associated with such software code.

1.3 "BROWSER" means a client program that uses the Hypertext Transfer Protocol ("HTTP"), or a similar protocol, to make requests of Web servers throughout the Internet on behalf of the browser user. A Browser shall be considered Application Software.

1.4 "CHIPS" means computer components such as microprocessors, integrated circuits and other computer chips (including microcode stored thereon) and each method, material, process and apparatus primarily relating to the design, test and manufacture of any of the foregoing.

1.5 "COPYRIGHTS" mean collectively (i) any copyright in any works of authorship fixed in any tangible medium of expression as set forth in 17 U.S.C. Section 101 et seq., whether registered or unregistered, including any applications for registration thereof, (ii) any corresponding foreign copyrights

under the laws of any jurisdiction, in each case, whether registered or unregistered, and any applications for registration thereof, and (iii) moral, common law or other rights in creative works however vested under the laws of any jurisdiction.

1.6 "DISTRIBUTION AGREEMENT" means the Master Distribution Agreement between the parties executed simultaneously herewith.

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1.7 "DISTRIBUTION DATE" shall have the meaning set forth in the Distribution Agreement.

1.8 "DVD" means "DIGITAL VERSATILE DISK", formerly "DIGITAL VIDEO DISK", which is a CD-sized disk with a capacity at or above 4 GB (gigabytes), able to be recorded using optical technology, with data containing full-length motion pictures, audio, or other data files.

1.9 "DVD PRODUCT" means a System designed to read and decode data from a DVD.

1.10 "ENREACH BROWSER" means a Browser that includes any of the software licensed under the agreement between Enreach Technology, Inc. and Vialta.com dated August 26, 2000.

1.11 "ESS TECHNOLOGY" shall have the meaning assigned to it in Section 2.1.

1.12 "FIRMWARE" means software code, in source or object code form that resides on computer hardware, specifically Flash Memory, RAM, ROM, PROM and EPROM Chips, such that, although machine readable, the software code residing on such computer hardware may not be modified or deleted without external hardware. "FIRMWARE" also includes such software code before it is made resident on such computer hardware, as well as the programmer notes and documentation specifically associated with such software code.

1.13 "INTELLECTUAL PROPERTY RIGHTS" means all rights, under United States law, foreign laws, or the law of any jurisdiction, relating to Copyrights, Marks, mask works, trade secrets, and all other intellectual and industrial property rights of every kind and nature however designated, whether arising by operation of law, contract, license or otherwise, and whether or not subject to statutory registration. "INTELLECTUAL PROPERTY RIGHTS" specifically includes rights to keep certain information confidential as provided in the Master Confidential Disclosure Agreement between the parties and specifically excludes Patents.

1.14 "KOMODO INTERNET PHONE PRODUCT" means the internet-phone

system permitting point-to-point voice calls and internet calls using voice over IP technology.

1.15 "MARK" means any trademark, service mark, trade name, and the like, or other word, name, symbol or device, or any combination thereof, used or intended to be used by a person to identify and distinguish the products or services of that person from the products or services of others and to indicate the source of such goods or services, including without limitation all registrations and applications therefor throughout the world and all common law and other rights therein throughout the world.

1.16 "PATENTS" means patents, utility patents, utility modes, design patents, design registrations, certificates of invention and other governmental grants for the protection of inventions or industrial designs anywhere in the world, issued or issuing on patent applications entitled to a priority, first, actual or effective filing date on or before the Distribution Date (or thereafter if containing issued claims covering an invention conceived before the Distribution Date), and all reissues, renewals, re-examinations and extensions of any of the foregoing.

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1.17 "SUBSIDIARY" shall have the meaning set forth in the Distribution Agreement.

1.18 "SYSTEM" means an aggregation or combination of elements or components primarily designed to work together for a common purpose and that is sold or otherwise distributed interconnected or to be interconnected, excluding Chips that may comprise a part of the System. Also, a "SYSTEM" shall not mean a Chip even though such Chip may itself comprise an aggregation or combination of elements primarily designed to work together for a common purpose.

1.19 "TECHNOLOGY" means software programs (including all source code, object code and documentation), designs, algorithms, libraries of software, technical information, technical drawings, know-how, manufacturing processes, design processes, behavioral models, logic diagrams, schematics, test vectors, formulae, industrial models, designs and design information, product information, specifications, data, methodologies, routines, techniques, engineering information, engineering work papers and notes, computer and electronic data processing and other apparatus programs, databases, trade secrets, technical information, records, knowledge, data and other like property.

1.20 "VIALTA TECHNOLOGY" means all Technology that is or is primarily designed to be:

1.20.1 Application Software for use with Vphone

Products, the EnReach Browser, DVD Products, ViDVD Products, ViAudio/ViMedia Products, and Komodo Internet Phone Products;

1.20.2 Systems for use with Vphone Products, the EnReach Browser, DVD Products, ViDVD Products, ViAudio/ViMedia Products, and Komodo Internet Phone Products;

1.20.3 Firmware for use with Vphone Products, the EnReach Browser, ViAudio/Media Products and Komodo Internet Phone Products; and

1.20.4 Firmware for use with ViDVD Products, but specifically excluding Technology primarily designed to be basic and generic functionality including without limitation the standard features of DVD, VCD, SVCD, MP3, Digital Photography, Karaoke, DVD Audio, Dolby, DTS and SACD.

For purposes of clarity, "VIALTA TECHNOLOGY" does not include any Technology that is Chips.

1.21 "VIAAUDIO/MEDIA PRODUCT" means the Video Internet Audio/Media System currently marketed by Vialta, under the names "ViMedia", for media-rich content and hyperlinked interaction for ViDVD Products.

1.22 "VIDVD PRODUCT" means the proprietary DVD System currently marketed by Vialta under the name, "ViDVD", with web functionality, supporting Dolby Digital audio, MP3 audio and DTS audio, with Karaoke and Internet telephony capabilities.

1.23 "VPHONE PRODUCT" means the videophone System marketed by Vialta under the name "ViPhone", permitting point-to-point or Internet-based videophone calls.

2. Technology and Intellectual Property Ownership.

2.1 As between ESS and Vialta, Vialta is the exclusive owner of all right, title and interest in and to the Vialta Technology and the Intellectual Property Rights in such Vialta Technology existing as of the Distribution Date. As between ESS and Vialta, ESS is the exclusive owner of all right, title and interest in and to all other Technology ("ESS TECHNOLOGY"), including without limitation Chips, and the Intellectual Property Rights in such ESS Technology existing as of the Distribution Date.

2.2 As between ESS and Vialta, Vialta is the exclusive owner of all right, title and interest in and to the Marks set forth in Exhibit B hereto, together with any associated goodwill. As between ESS and Vialta, ESS is the exclusive owner of all right, title and interest in and to all other Marks

existing as of the Distribution Date. Neither party shall (i) challenge the other party's ownership or use of the Marks acknowledged herein as owned by such other party; (ii) attempt to itself register any such Marks or any marks confusingly similar thereto in any jurisdiction in the world; (iii) alter or add to any such Marks; or (iv) incorporate any such Marks into its own trademarks, product names, service marks, company names, domain names, or any other similar designations.

2.3 Notwithstanding Section 2.1, ESS and Vialta shall each own an undivided 50/50 interest in the ACCESS Browser Software Program, together with the Intellectual Property Rights protecting the ACCESS Browser Software Program, subject to the use restrictions specified in Exhibit A hereto. Each party shall have the unrestricted right to grant licenses (including the right for any licensees to grant sublicenses) to third parties under such ACCESS Browser Software Program without accounting and with necessary consent hereby given by the other party as may be required by the law of any country in granting such licenses to third parties.

2.4 The parties acknowledge this Agreement sets forth the parties intended ownership and licensing of the subject matter hereof as of the Distribution Date. To the extent the actual ownership of the Technology and Intellectual Property Rights addressed herein is other than as stated herein, the parties hereby make and agree to make any and all appropriate assignments to make the statements herein full and accurate. To the extent ownership records in fact differ from that provided herein, the parties agree to execute at any time (including after the Distribution Date) such conveyance instruments as necessary to reflect the terms of this Agreement.

2.5 Prior Grants. Each party acknowledges and agrees that the foregoing acknowledgements as to ownership are subject to any and all licenses and other rights that may have been granted to a third party by the other party or its Subsidiaries prior to the Distribution Date. Each party shall respond to reasonable inquiries from the other party regarding any such prior grants.

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3. Research and Development.

3.1 Subject to Section 2, as between ESS and Vialta, each party is the exclusive owner of all Technology and associated Intellectual Property Rights developed during research and development conducted by such party alone or without the other party hereto on, before or after the Distribution Date.

3.2 The Research and Development Service Agreement (ESS to Vialta), effective August 1, 1999 (the "VIALTA RESEARCH AND DEVELOPMENT AGREEMENT") and the Research and Development Service Agreement (Vialta to ESS), effective August 1, 1999 (the "ESS RESEARCH AND DEVELOPMENT AGREEMENT") are

hereby terminated as of the Distribution Date, excepting only that any outstanding payment obligations existing as of the Distribution Date shall be met by the debtor party. Section 3 of both the Vialta Research and Development Agreement and the ESS Research and Development Agreement are replaced by Section 2.1 of this Agreement effective nunc pro tunc to the effective date of those Agreements.

4. Dispute Resolution. Any and all controversies, disputes or claims arising out of, relating to, in connection with or resulting from this Agreement (or any amendment thereto or any transaction contemplated hereby or thereby), including as to its existence, interpretation, performance, non-performance, validity, breach or termination, including any claim based on contract, tort, statute or constitution and any claim raising questions of law, whether arising before or after termination of this Agreement, shall be deemed a Dispute as defined in Section 4.6 of the Distribution Agreement and shall be resolved exclusively by, in accordance with, and subject to the procedures and limitations set forth in, Section 4.6 of the Distribution Agreement.

5. Miscellaneous Provisions.

5.1 Incorporation of Distribution Agreement. The miscellaneous provisions provided in Article V of the Distribution Agreement are incorporated herein by reference as though set forth in full, excepting only Section 5.15 of the Distribution Agreement.

5.2 Other Agreements. This Agreement is not intended to address, and should not be interpreted to address, the matters expressly covered by the Distribution Agreement and/or the other Ancillary Agreements. In the event of a conflict between this Agreement and the Distribution Agreement and/or any other Ancillary Agreement executed in connection herewith, the provisions of this Agreement shall prevail.

5.3 Superseded Previous Understandings. This Agreement supercedes all previous agreements between the ESS and Vialta dealing with ownership or licensing of Technology or Intellectual Property Rights, including the Vialta Research and Development Agreement, the ESS Research and Development Agreement and the Assignment of Intellectual Property Agreement between ESS and Vialta, dated January 1, 2000.

5.4 Confidentiality. The terms of the Master Confidential Disclosure Agreement between the parties shall apply to any Confidential Information which is the subject matter of this Agreement.

5.5 Disclaimer. NEITHER PARTY MAKES ANY WARRANTY OR REPRESENTATION, INCLUDING ANY WARRANTY OR REPRESENTATION CONCERNING TECHNOLOGY

OR INTELLECTUAL PROPERTY, EXPRESS, IMPLIED OR STATUTORY, INCLUDING WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE, ENFORCEABILITY OR NON-INFRINGEMENT.

5.6 No Implied Licenses. Nothing contained in this Agreement shall be construed as conferring any rights by implication, estoppel or otherwise, under any Intellectual Property Right, other than the rights expressly granted in this Agreement.

IN WITNESS WHEREOF, each of the parties has caused this Master Technology Ownership and License Agreement to be executed as of the date first above written.

ESS TECHNOLOGY, INC.

VIALTA, INC.

By: _____

By: _____

Name: _____

Name: _____

Its: _____

Its: _____

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EXHIBIT A

USE RESTRICTIONS APPLICABLE TO ACCESS BROWSER

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EXHIBIT B

VIALTA MARKS

8

EMPLOYEE MATTERS AGREEMENT

BETWEEN

ESS TECHNOLOGY, INC.

AND

VIALTA, INC.

EFFECTIVE AS OF

_____, 2001

EMPLOYEE MATTERS AGREEMENT

This Employee Matters Agreement (this "AGREEMENT") is entered into as of _____, 2001, between ESS Technology, Inc., a California corporation ("ESS") and Vialta, Inc., a Delaware corporation ("VIALTA").

RECITALS

WHEREAS, pursuant to the terms of the Master Distribution Agreement by and among ESS and Vialta dated as of _____, 2001 (the "DISTRIBUTION AGREEMENT"), the parties have entered into this Agreement regarding certain employment, compensation and benefit matters occasioned by the Distribution.

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements contained in this Agreement and the Distribution Agreement, each of the parties hereto, on behalf of itself and each other member of its Group, hereby agrees as follows:

1. Definitions.

1.1 DEFINITIONS. The following terms, when capitalized herein, shall have the meanings set forth below in this Section 1. Unless indicated otherwise, all other capitalized terms which are used but are not otherwise defined herein shall have the meanings ascribed to them in the Distribution Agreement.

1.1.1 "ACTIVE EMPLOYEES" means all employees actively engaged in the performance of services to, for or on behalf of Vialta as of the Distribution Date, including any employee who is not actively performing services because of (a) leave of absence within a job protection period, or (b)

disability within a job protection period, and the dependents of such persons (and, as applicable, the alternate payees of such persons).

1.1.2 "COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

1.1.3 "DISTRIBUTION RATIO" shall have the meaning set forth in the Distribution Agreement.

1.1.4 "ESS DC PLAN" means the ESS 401(k) Plan, a defined contribution plan.

1.1.5 "ESS WELFARE PLANS" means, collectively, the following plans and or benefits, the Business Travel Accident Plan, the ESS Dental Plan, the ESS Flexible Spending Plan, the ESS Disability Plans, the ESS Medical Plans, ESS Life and AD&D Insurance and the ESS Vision Plan.

1.1.6 "FORMER EMPLOYEES" means all former employees of Vialta, except for employees then employed by ESS Technology Group, as of the Distribution Date, and the dependents and, as applicable, the alternate payees, of those persons who, if they were actively engaged in the performance of services to, for or on behalf of Vialta at the Distribution Date, would be an Active Employee, determined on a basis consistent with the determination of the Active Employees.

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1.1.7 "GROUP" means (i) with respect to ESS, the ESS Technology Group, and (ii) with respect to Vialta, the Vialta Group.

1.1.8 "LIABILITIES" means all debts, liabilities, guarantees, assurances, commitments and obligations, whether fixed, contingent or absolute, asserted or unasserted, matured or unmatured, liquidated or unliquidated, accrued or not accrued, known or unknown, due to become due, whenever or however arising (including, without limitation, whether arising out of any contract or tort based on negligence or strict liability) and whether or not the same would be required by generally accepted principals and accounting policies to be reflected in financial statements or disclosed in the notes thereto.

1.1.9 "OPTION" means, when immediately preceded by "ESS", an option to purchase shares of ESS Common Stock pursuant to all ESS stock option plans; when immediately preceded by "Vialta", such term shall mean an option to purchase shares of Vialta Class A Common Stock pursuant to the Vialta, Inc. 2001 Nonstatutory Stock Option Plan.

1.1.10 "PERSON" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental

entity or any department, agency or political subdivision thereof.

1.1.11 "RECORD DATE" shall have the meaning set forth in the Distribution Agreement.

1.1.12 "QMCSO" means a medical child support order which qualifies under Section 609(a) of the Employee Retirement Income Security Act of 1974 as amended ("ERISA") and which creates or recognizes the existence of an alternate recipient's right to, or assigns to an alternate recipient the right to, receive benefits for which a participant or beneficiary is eligible under any of the applicable Welfare Plans.

1.1.13 "VIALTA 2001 PLAN" means the Vialta 2001 Nonstatutory Stock Option Plan.

1.1.14 "VIALTA DC PLAN" means the defined contribution plan to be established by Vialta pursuant to Section 3.

1.1.15 "VIALTA WELFARE PLANS" means the medical, health maintenance organization ("HMO"), vision, dental and any other health and welfare plans to be established by Vialta pursuant to Section 6.

2. General Employment Matters.

2.1 General Obligations. Except as specifically provided herein, from and after the Distribution Date, Vialta shall, as applicable, cause each of the other members of its Group to (a) continue the employment of all of the Active Employees, subject, however to the terms of Section 2.3 below and (b) except as otherwise specifically provided herein, assume, pay, perform and discharge any and all labor, employment, compensation and benefit Liabilities with respect to all Active Employees and all Former Employees.

2.2 Initial Compensation of Active Employees. The initial base salary or wage level of each Active Employee shall be no less than the base salary or wage level of such Active Employee immediately prior to the Distribution Date.

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2.3 No Additional Employment Rights Created. Nothing in this Agreement shall give any Active Employee any right to continued employment by the Vialta Group beyond the Distribution Date, which is in addition to or supplemental to any such right he or she may have arising under contract or otherwise.

2.4 Service Credit. Except as specified otherwise in this Agreement, with respect to Active Employees, each Vialta DC Plan or Vialta Welfare Plan, as applicable, shall provide that all service, all compensation and all other determinations that affect benefits eligibility or vesting under

any plan that, as of the Distribution Date, were recognized under the corresponding ESS Plan shall, as of the Distribution Date receive full recognition and credit and be taken into account under such Vialta Plan to the same extent as if such items occurred under such Vialta Plan, except to the extent that duplication of benefits would result. The service crediting provisions shall be subject to any respectively applicable "service bridging," "break in service," "employment date," or "eligibility date" rules under the Vialta Plans and the ESS Plans.

2.5 COBRA. ESS shall be responsible through the Distribution Date, for compliance with the health care continuation coverage requirements of COBRA and the ESS Welfare Plans with respect to Active Employees and Former Employees and qualified beneficiaries (as such term is defined under COBRA). Vialta shall be responsible for providing ESS with all necessary employee change notices and related information for covered dependents, spouses, qualified beneficiaries (as such term is defined under COBRA), and alternate recipients pursuant to a QMCSO, in accordance with applicable ESS COBRA policies and procedures. As soon as administratively practicable after the Distribution Date, ESS shall provide Vialta, through hard copy, electronic format or such other mechanism as is appropriate under the circumstances, with a list of all qualified beneficiaries (as such term is defined under COBRA) that relate to the Vialta Group and the relevant information pertaining to their coverage elections and remaining COBRA time periods. Effective as of the Distribution Date, Vialta shall assume and be solely responsible for compliance with the health care continuation coverage requirements of COBRA for Active Employees and Former Employees and their qualified beneficiaries (as such term is defined under COBRA), regardless of whether the relevant qualifying event occurred before or after the Distribution Date.

3. Retirement Plan Benefits.

3.1 Establishment of Vialta DC Plan.

3.1.1 Vialta DC Plan. On or before the Distribution Date, Vialta will establish or make available a defined contribution plan for the benefit of the United States Active Employees and Former Employees (the "VIALTA DC PLAN").

3.1.2 Transfer of Account Balances to Vialta DC Plan. Unless otherwise determined by Vialta and ESS, and as promptly as practicable after the Distribution Date: (i) the Vialta DC Plan shall assume and be solely responsible for all Liabilities for or relating to Active Employees and Former Employees under the ESS DC Plan; and (ii) ESS shall cause the accounts of the Active Employees and Former Employees of Vialta under the ESS DC Plan that are held by its related trust as of the Distribution Date to be transferred to the Vialta DC Plan and its related trust, and Vialta shall cause such transferred accounts to be accepted by such plan and its

related trust. Vialta and ESS each agree to use their commercially reasonable best efforts to accomplish the foregoing. As soon as reasonably practicable after the Distribution Date, Vialta shall use its commercially reasonable best efforts to enter into agreements satisfactory to Vialta to accomplish such assumption and transfer, the maintenance of the necessary participant records, the appointment of Shiu Leung Chan and Bruce L. Calvin as the initial trustee under the Vialta Plan, and the engagement of Principal Financial Group as the initial recordkeeper under the Vialta DC Plan.

3.1.3 No Distribution to Vialta Active Employees. No distribution of account balances under either the ESS DC Plan or the Vialta DC Plan shall be made to any Active Employee solely on account of Vialta ceasing to be an Affiliate of ESS as of the Distribution Date.

3.2 Reimbursement. Vialta shall assume all direct and indirect administrative costs associated with the Vialta DC Plan with respect to Active Employees and Former Employees, which costs would otherwise be borne by ESS.

4. Employee Benefits Matters Outside the United States.

4.1 Employee Benefits Matters Outside the United States. With respect to the business and operations of Vialta in jurisdictions outside the United States, Vialta shall (and, as applicable, shall cause each other member of its Group over which it has direct or indirect legal or effective control to) assume, adopt similar or replacement plans, or retain, as the case may be, any and all employee benefits Liabilities and attendant plans and their assets related to the Active Employees and Former Employees.

5. Equity and Other Compensation.

5.1 Bonus Plans. Effective on the Distribution Date, Active Employees shall cease their participation in the ESS MBO Plan; provided, however an Active Employee shall be entitled to any payment earned by such Active Employee under either plan as of the Distribution Date. Effective as of one day after the Distribution Date, Vialta shall establish one or more bonus or profit-sharing plans for Active Employees for fiscal period(s) of Vialta beginning one day after the Distribution Date. The terms and conditions of any such bonus or profit-sharing plans, including (without limitation) the specific performance objectives pertaining to the plan and timing and amount of any bonus or profit-sharing payment shall be determined by Vialta. Each such plan shall be administered by the Vialta Board of Directors or a committee of such Board.

5.2 Stock Plans. Subject to the terms of this Agreement, effective as of immediately prior to the close of the Distribution Date, Vialta shall grant to each employee, consultant and outside director of ESS (as determined by ESS) who is a holder of an ESS Option that is outstanding immediately prior to the close of the Distribution Date, a Vialta Option under the Vialta 2001 Plan, with respect to each such Option that was outstanding on the Record Date (each a "Distribution Option"). Distribution Options shall be

evidenced by the form of stock option agreement approved by Vialta's Board of Directors in connection with the adoption of the Vialta 2001 Plan, which

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agreement shall be delivered to each such holder as soon as practicable after the close of the Distribution Date.

5.2.1 Each Distribution Option shall provide for the purchase of a number of shares of Vialta Class A Common Stock equal to the number of shares of ESS Common Stock which are subject, as of the Record Date, to the ESS Option (the "CORRESPONDING ESS OPTION") with respect to which such Distribution Option is granted (whether vested or unvested) multiplied by the Distribution Ratio. With respect to each Distribution Option, the number of shares of Vialta Class A common stock determined pursuant to the preceding sentence shall be rounded down to the nearest whole share of Vialta Class A common stock.

5.2.2 The vesting provisions, term and other provisions of each Distribution Option shall be the same as those in effect with respect to the applicable Corresponding ESS Option immediately prior to the close of the Distribution Date, except as otherwise provided for in this Section 5.2. A Distribution Option may only be exercised at the same time as the exercise of the Corresponding ESS Option, as described in Section 5.2.3 below.

5.2.3 The per-share exercise price, the vesting provisions, term and other provisions of each such Corresponding ESS Option shall be the same as those in effect immediately prior to the close of the Distribution Date. Upon the subsequent exercise of a Corresponding ESS Option, the holder will be deemed to have also exercised the corresponding Distribution Option, and will receive the ESS shares being acquired upon exercise of as well as a corresponding number of shares of Vialta Class A common stock.

5.2.4 Employee Stock Purchase Plan. Through the Distribution, Active Employees shall continue to participate in the ESS 1995 Employee Stock Purchase Plan (the "ESS ESPP"). On or prior to the Distribution Date, Vialta shall adopt, and Vialta's shareholders shall approve, the Vialta Inc. 2001 Employee Stock Purchase Plan (the "VIALTA ESPP"). The first offering period under the Vialta ESPP shall commence on a date determined by Vialta's board of directors.

6. Welfare Benefits.

6.1 Welfare Plans. On or before the Distribution Date, Vialta shall adopt and serve as the sole sponsor of welfare plans for the benefit of Active Employees and Former Employees that are (in the aggregate) substantially similar to the ESS Welfare Plans.

6.2 Allocation and Discharge of Welfare Plan Liabilities. As of the Distribution Date or earlier upon adoption of the applicable plan, all Liabilities under the ESS Welfare Plans (including administrative expenses) with respect to Active Employees and Former Employees and their dependents shall be assumed by Vialta and shall constitute Vialta Liabilities.

6.3 Claims under Welfare Plans. ESS shall administer claims incurred under the ESS Welfare Plans by Active Employees and Former Employees before the Distribution Date but only to the extent that Vialta has not, before the Distribution Date, established and assumed administrative responsibility for a comparable Plan. Any determination made or

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settlements entered into by ESS with respect to such claims shall be final and binding. ESS shall transfer to Vialta, effective as of the Distribution Date, responsibility for administering all claims incurred by Active Employees and Former Employees before the Distribution Date (including any claims that were administered by ESS, as of, on, or after the Distribution Date), unless such claims are made under an ESS Welfare Plan. Vialta shall administer such claims in a substantially similar manner, using substantially similar methods and procedures, as ESS used in administering such claims. Vialta shall have sole and absolute discretionary authority to make any necessary determinations with respect to such claims, including entering into settlements with respect to such claims.

6.4 Business Travel Accident Insurance Policy. ESS shall administer the ESS Business Travel Accident Insurance Policy prior to the Distribution Date until such time as Vialta has established and assumed administrative responsibility for a comparable Plan. Effective as of the Distribution Date, ESS's obligations under this Section 6.4 shall cease, and Vialta shall be solely responsible for maintaining its own Business Travel Accident Insurance Policy for the benefit of Active Employees.

6.5 Workers' Compensation Program. ESS shall, until the Distribution Date, continue to administer, or cause to be administered, the ESS Worker's Compensation Program in accordance with its terms and applicable law. Effective as of the Distribution Date, Vialta shall procure or establish a Workers' Compensation Program for Active Employees on an ongoing basis and shall assume and be solely responsible for all Liabilities relating to, arising out of, or resulting from workers' compensation claims by Active Employees.

7. General.

7.1 Post-Distribution Administration of Plans. The parties hereto will administer all plans consistently herewith, and to the extent

necessary will amend their respective employee benefit plans accordingly.

7.2 Costs and Expenses. Each party shall bear all costs and expenses, including but not limited to legal and consulting fees, incurred from and after the Distribution Date in the design, drafting and implementation of any and all plans and compensation structures which it establishes or creates and the amendment of its existing plans or compensation structures.

7.3 Sharing of Participant Information. From and after the Distribution Date, ESS and Vialta shall share, and shall cause each member of their respective Groups to share, with each other and with their respective agents and vendors all participant information necessary and appropriate for the efficient and accurate administration of each party's respective employee benefit plans and performance of their respective obligations under this Agreement. ESS and Vialta shall, subject to all applicable laws concerning confidentiality, be given reasonable and timely access to, and may make copies of, all information relating to the subjects of this Agreement in the custody of another party, to the extent necessary and appropriate for such administration and performance.

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7.4 Consent of Third Parties. If any provision of this Agreement is dependent on the consent of any third party (such as a vendor) and such consent is withheld, ESS and Vialta shall use their commercially reasonable best efforts to implement the applicable provisions of this Agreement. If any provision of this Agreement cannot be implemented due to the failure of such third party to consent, ESS and Vialta shall negotiate in good faith to implement the provision in a mutually satisfactory manner.

8. Dispute Resolution. Any and all controversies, disputes or claims arising out of, relating to, in connection with or resulting from this Agreement (or any amendment thereto or any transaction contemplated hereby or thereby), including as to its existence, interpretation, performance, non-performance, validity, breach or termination, including any claim based on contract, tort, statute or constitution and any claim raising questions of law, whether arising before or after termination of this Agreement, shall be deemed a Dispute as defined in Section 4.6 of the Distribution Agreement and shall be resolved exclusively by, in accordance with, and subject to the procedures and limitations set forth in, Section 4.6 of the Distribution Agreement.

9. Miscellaneous Provisions.

9.1 Incorporation of Distribution Agreement. The miscellaneous provisions provided in Article V of the Distribution Agreement are incorporated herein by reference as though set forth in full, excepting only

9.2 Other Agreements. This Agreement is not intended to address, and should not be interpreted to address, the matters expressly covered by the Distribution Agreement and/or the other Ancillary Agreements. In the event of a conflict between this Agreement and the Distribution Agreement and/or any other Ancillary Agreement executed in connection herewith, the provisions of this Agreement shall prevail.

9.3 Survival of Agreements. All covenants and agreements of the parties contained in this Agreement shall survive the Distribution Date except as expressly provided herein and shall not be merged into any other transfer or closing instruments or documents.

9.4 Termination. This Agreement may be terminated at any time before the Distribution by ESS in its sole discretion without the approval of Vialta or the ESS shareholders. In the event of such termination, no party shall have any Liability of any kind to any other party. After the Distribution Date, this Agreement may not be terminated except by an agreement in writing signed by each of the parties.

9.5 No Third Party Beneficiaries. This Agreement is solely for the benefit of the parties and the members of their respective Groups and should not be deemed to confer upon

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third parties any remedy, claim, liability, right of reimbursement, claim of action or other right in excess of those existing without reference to this Agreement.

9.6 Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California without regard to the principles of conflicts of laws thereunder, to the extent not preempted by the Employee Retirement Income Security Act of 1974. The Superior Court of Santa Clara County and/or the United States District Court for the Northern District of California, San Jose Division, shall have jurisdiction and venue over all Disputes between the parties that are permitted to be brought in a court of law pursuant to Section 4.6 of the Distribution Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly elected as of the day and year first above written.

ESS TECHNOLOGY, INC.

By:

Name:
Title:

VIALTA, INC.

By:

Name:
Title:

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TAX SHARING AND INDEMNITY AGREEMENT

This Tax Sharing and Indemnity Agreement, dated effective as of _____, 2001, is entered into by and between ESS Technology, Inc., a California corporation ("ESS") and Vialta, Inc., a Delaware corporation ("VIALTA").

RECITALS

A. ESS filed a U.S. federal income tax return for its 1999 tax year including Vialta as a member of its affiliated group of corporations for the period commencing April 20, 1999, the date Vialta was incorporated, until later in calendar year 1999, when ESS' stock ownership of Vialta no longer represented at least 80% of the total voting power and total value of Vialta's stock. All tax returns (including state tax returns described below) filed before the date of this Agreement on a consolidated, combined or unitary basis including ESS and Vialta are referred to herein as the "ESS/VIALTA FILED RETURNS".

B. ESS intends to distribute its Vialta Class A common stock pro rata to the holders of ESS common stock (the "DISTRIBUTION").

C. ESS filed a California combined return with Vialta for its 1999 tax year and anticipates filing California combined returns for its 2000 and 2001 tax year with Vialta for the period prior to the Distribution (as defined below) and may have filed or may file other state tax returns on a consolidated, combined or unitary basis.

D. ESS and Vialta would like to allocate responsibilities for certain tax matters. In particular, the parties would like to provide for (1) payments, as appropriate, to reflect differences between estimates of tax liability for unfiled tax returns for periods beginning before the date of the Distribution (the "DISTRIBUTION DATE") and the liability shown on the tax returns filed for those periods, (2) the retention, maintenance and provision of access to all records necessary to prepare and file appropriate tax returns, (3) indemnity for certain tax obligations and (4) the conduct of audits, examinations and proceedings that could result in a redetermination of tax liabilities.

AGREEMENT

To accomplish the purposes described above, ESS and Vialta agree as follows:

1. Unfiled Returns.

- 1.1 Fling of Returns. ESS shall prepare and timely file all unfiled consolidated, combined or unitary returns for periods beginning before

the Distribution Date which include Vialta, excluding returns that include only Vialta ("ESS/VIALTA UNFILED RETURNS").

1.2 Vialta Cooperation. Vialta shall, subject to the confidentiality provisions of Section 9, furnish to ESS all supporting information and documentation useful in preparing the ESS/Vialta Unfiled Returns.

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1.3 Payments. ESS shall be responsible for making all payments required to be made to the applicable taxing authorities in connection with the ESS/Vialta Unfiled Returns, including all estimated tax payments. After making such payments, ESS shall promptly notify Vialta of any portion of the payment that ESS believes in good faith to be attributable to Vialta's share of the aggregate tax liability, as determined under Section 2. Within 30 days after receipt of such notice, Vialta shall pay such amount to ESS. The dispute resolution procedures set forth in Section 10 shall apply if Vialta disputes its share of the aggregate tax liability.

2. Share of Liability.

2.1 Vialta's share of taxes with respect to the ESS/Vialta Unfiled Returns and with respect to any adjustment to the ESS/Vialta Filed Returns shall, to the maximum extent possible, be determined as if Vialta had filed a separate tax return for the relevant period, applying the principles underlying the allocation method described in Treasury Regulation Section 1.1502-32(b)(3)(iv)(D).

2.2 With respect to any ESS/Vialta Unfiled Returns: (i) Vialta shall be required to pay ESS to the extent that Vialta's separate company liability is reduced by the absorption of losses, credits or other tax attributes of ESS or affiliates of ESS other than Vialta; and (ii) ESS shall be required to pay Vialta to the extent that the absorption of Vialta's losses, credits or other tax attributes reduces the combined tax liability.

3. Refunds. If ESS receives a refund because of an overpayment of taxes shown on a tax return, as originally filed, ESS shall pay to Vialta that portion of the refund, if any, equal to the excess of (i) payments made by Vialta to ESS in respect of Vialta's share of the tax liability for such return over (ii) Vialta's share of the tax liability reported on such return, as determined under Section 2.

4. Carryback of Post-Distribution Vialta Tax Attributes. If, for any taxable period beginning on or after the Distribution Date, Vialta recognizes a loss, credit or similar tax attribute that, under applicable law, can or must be carried back to a taxable period during which Vialta joined one or more members of the ESS affiliated group in filing consolidated, combined or unitary returns, ESS shall, at Vialta's expense, file appropriate refund claims within a

reasonable period after being requested by Vialta. ESS shall promptly remit to Vialta any refunds received with respect to any tax attribute so carried back. Vialta shall be required to reimburse ESS for that portion of any deficiency resulting from a reduction of a loss, credit or similar tax attribute of Vialta that was carried back from a post-Distribution period pursuant to this Section 4.

5. Indemnification.

5.1 ESS' Indemnity Obligations. ESS shall indemnify Vialta and hold Vialta harmless from and against any tax liability for taxes within the scope of this Agreement and any related cost or expense, paid by Vialta in excess of that portion of the tax liability allocated to Vialta under this Agreement. ESS shall be required to pay Vialta to the extent that the absorption of

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Vialta's losses, credits or other tax attributes reduces the combined tax liability as redetermined as a result of an audit or the filing of an amended return related to an ESS/Vialta Filed Return or an ESS/Vialta Unfiled Return.

5.2 Vialta's Indemnity Obligations. Vialta shall indemnify ESS and hold ESS harmless from and against any taxes and related interest and penalties imposed upon ESS, including, without limitation, any liability of ESS arising from taxes, interest or penalties imposed upon the shareholders of ESS to the extent any shareholder or shareholders of ESS or the Internal Revenue Service or other taxing authority successfully seek recourse against ESS, resulting from (i) the application to the Distribution of Section 355(e) of the Internal Revenue Code (the "CODE") by reason of an acquisition of Vialta stock or (ii) the failure of the Distribution to qualify for nonrecognition treatment under Section 355(c) of the Code, if such failure results from (a) a failure by Vialta to continue its active trade or business after the Distribution, (b) the treatment of the Distribution as a device for the distribution of earnings and profits within the meaning of Section 355(a)(1)(B) of the Code, because of one or more repurchases by Vialta of its stock, (c) any other act or omission by Vialta or (d) breach of any representation or covenant of Vialta under this Agreement. Vialta shall be required to pay ESS to the extent that Vialta's separate company liability is increased as a result of a deficiency assessment or the filing of an amended return. ESS shall not file an amended return which increases Vialta's tax liability without Vialta's consent, which shall not be unreasonably withheld.

5.3 Timing of Indemnity Payments. Any indemnity payments required by this Section 5 shall be made within 10 days after a final determination of an indemnified tax liability. For this purpose, an agreement between the corporation liable for an asserted tax deficiency and the relevant tax authority to settle the claimed deficiency shall constitute a final determination.

5.4 Control of Contests.

5.4.1 ESS shall notify Vialta of the commencement of any audits of any ESS/Vialta Unfiled Returns or ESS/Vialta Filed Returns.

5.4.2 If, with respect to any taxable period and any type of tax liability, ESS or an affiliate of ESS receives from a taxing authority any request for information, letters, forms or schedules ("AUDIT CORRESPONDENCE") that could reasonably relate to issues that, if resolved unfavorably to the taxpayer, would give rise to an indemnifiable tax liability, ESS shall timely provide Vialta with a copy of the Audit Correspondence and shall consult with Vialta regarding the response to the Audit Correspondence.

5.4.3 If any audit results in a material claimed tax deficiency that would be subject to indemnity by Vialta, in whole or in part, Vialta shall have the right to control the contest of that portion, and only that portion, of the claimed deficiency that would be subject to indemnity, including the right to decide whether to settle that portion of the controversy; provided that (i) Vialta shall furnish ESS with evidence reasonably satisfactory to ESS of its ability to pay the full amount of the indemnified liability and (ii) Vialta shall acknowledge in writing that the asserted liability is

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Vialta's responsibility. If Vialta assumes control of all or part of a contest: (1) ESS shall execute any powers of attorney or other documents necessary to enable Vialta to participate in the contest, (2) Vialta shall pay the costs it incurs in participating in the contest, (3) Vialta shall consult with ESS and not unreasonably reject ESS' advice regarding the handling of that portion of the contest controlled by Vialta, and (4) ESS shall not deny any request by the applicable taxing authority to extend the statute of limitations if, in ESS' reasonable judgment, the denial would materially prejudice Vialta's ability to defend the claim subject to indemnity. For purposes of this Agreement, a material claimed tax deficiency that would be subject to indemnity by Vialta includes only such claimed tax deficiencies which could result in Vialta being subject to an indemnity obligation in excess of \$100,000.

6. No Inconsistent Actions. ESS and Vialta each covenant and agree that unless and until either (i) a ruling is issued by the Internal Revenue Service that the Distribution is a taxable event or (ii) the ruling request filed with the Internal Revenue Service with respect to the tax treatment of the Distribution (the "Ruling Request") is abandoned (either event, an "Adverse Ruling"), it will use its best efforts to cause the Distribution to qualify under Section 355 of the Code. ESS and Vialta each covenant and agree that, unless and until there is an Adverse Ruling, it will not take or permit any action that may be inconsistent with the tax treatment of the Distribution as

contemplated by the ruling request filed with the Internal Revenue Service (the "Ruling Request"), unless the other party has consented in writing to such act. Without limiting the foregoing, ESS and Vialta each represent and warrant that it has no plan or intent to take any action that is inconsistent with any factual statements or representations in the Ruling Request. Regardless of any change in circumstances, ESS and Vialta each covenant and agree that, unless there is an Adverse Ruling, it will not take or permit any such inconsistent action on or before the last day of the calendar year ending after the second anniversary of the Distribution Date other than as permitted in this Section 6. Notwithstanding anything to the contrary in this Tax Sharing and Indemnity Agreement, ESS and Vialta each shall be solely liable for, and shall indemnify and hold harmless the other company from any taxes and related interest and penalties resulting from any action described in this Section 6, regardless of whether the other party has consented to such action.

7. Gross-Up for Taxes on Required Payments. If the receipt or accrual of any payment required by this Agreement is subject to any tax, the payor shall pay an additional amount so that the total amount received by the payee, net of any applicable taxes, equals the amount of the required payment. If a reasonable basis exists to treat a payment as not subject to tax, no gross-up shall be required under this Section 7 unless the payment is finally determined to be subject to tax.

8. Retention of and Access to Records; Cooperation and Assistance.

8.1 Retention of and Access to Records. ESS and Vialta shall retain all ESS/Vialta Filed Returns and ESS/Vialta Unfiled Returns, together with all related reports, work papers, schedules or other documents or computer files, and, subject to the confidentiality provisions of Section 9, shall make these documents or files available to the other upon request. Neither ESS nor Vialta shall dispose of any of these documents or files without the other's permission.

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8.2 Cooperation and Assistance. Subject to the confidentiality provisions of Section 9, ESS and Vialta shall provide each other with such cooperation, assistance, and information as either of them may reasonably request of the other with respect to the filing with any taxing authority of any tax return, amended return, claim for refund, or other document.

9. Confidentiality of Documents and Information. Any documents or information provided pursuant to this Agreement in connection with a tax contest or filing with a tax authority shall be provided or disclosed by the recipient only to those of its employees responsible for the tax contest or filing or to attorneys or accountants advising the recipient on these matters. Any wider dissemination of these documents or this information shall be allowed only if

required by law or authorized by the party providing the documents or information.

10. Dispute Resolution. Any and all controversies, disputes or claims arising out of, relating to, in connection with or resulting from this Agreement (or any amendment thereto or any transaction contemplated hereby or thereby), including as to its existence, interpretation, performance, non-performance, validity, breach or termination, including any claim based on contract, tort, statute or constitution and any claim raising questions of law, whether arising before or after termination of this Agreement, shall be deemed a Dispute as defined in Section 4.6 of the Distribution Agreement and shall be resolved exclusively by, in accordance with, and subject to the procedures and limitations set forth in, Section 4.6 of the Distribution Agreement.

11. Miscellaneous Provisions.

11.1 Incorporation of Distribution Agreement. The miscellaneous provisions provided in Article V of the Distribution Agreement are incorporated herein by reference as though set forth in full, excepting only Section 5.15 of the Distribution Agreement.

11.2 Other Agreements. This Agreement is not intended to address, and should not be interpreted to address, the matters expressly covered by the Distribution Agreement and/or the other Ancillary Agreements. In the event of a conflict between this Agreement and the Distribution Agreement and/or any other Ancillary Agreement executed in connection herewith, the provisions of this Agreement shall prevail.

IN WITNESS WHEREOF, the parties have caused this Tax Sharing and Indemnity Agreement to be duly executed as of the date first set forth above.

ESS TECHNOLOGY, INC.

VIALTA, INC.

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

REAL ESTATE MATTERS AGREEMENT

BETWEEN

ESS TECHNOLOGY, INC.

AND

VIALTA, INC.

_____, 2001

REAL ESTATE MATTERS AGREEMENT

This Real Estate Matters Agreement (this "Agreement") is entered into on _____, 2001 between ESS Technology, Inc., a California corporation ("ESS TECHNOLOGY"), and Vialta, Inc., a Delaware corporation ("VIALTA"). Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Distribution Agreement (as defined below).

RECITALS

WHEREAS, ESS Technology will distribute to the holders of its common stock on the Distribution Date, _____ shares of Vialta Class A Common Stock owned by ESS Technology in accordance with the Master Distribution Agreement dated as of _____, 2001 between ESS Technology and Vialta (the "DISTRIBUTION AGREEMENT").

WHEREAS, the parties desire to set forth certain agreements regarding real estate matters in connection with the Distribution.

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below, the parties hereto agree as follows:

1. General Definitions. The following terms, as used herein, shall have the following meanings. Unless indicated otherwise, all other capitalized terms which are used but are not otherwise defined herein shall have the meanings

ascribed to them in the Distribution Agreement.

1.1 "ADDITIONAL PROPERTIES" means any real property purchased, leased or licensed by ESS Technology or its Subsidiaries after the date of the Distribution Agreement and before the Distribution Date which is a subject of this Agreement.

1.2 "LANDLORD" means all persons or entities with a right, title or interest in a Leased Property superior to the interest held by Vialta or its respective Subsidiaries, including, without limitation, ground lessors, master lessors, lessors, sublessors, and licensors.

1.3 "LEASE" means the oral or written agreement whereby Vialta or its respective Subsidiaries obtained all the right, title and interest to exclusive use and occupancy of a Leased Property.

1.4 "LEASE CONSENTS" means all consents, waivers, amendments, and novations required by a Landlord or other third parties pursuant to a Relevant Lease as a result of the transactions contemplated by the Distribution Agreement.

1.5 "LEASED PROPERTIES" means the real property leased by Vialta or its Subsidiaries which is a subject of this Agreement pursuant to Section 2.

1.6 "RELEVANT LEASES" means those Leases with respect to which the consummation of the Distribution either (A) violates a provision of a Lease, or (B) without the

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consent of the Landlord, triggers a Lease default or an event which, with the passage of time or the giving of notice or both, would be a Lease default.

1.7 "VIALTA HK" means Vialta.com Hong Kong Company Limited, a Subsidiary of Vialta organized under the laws of Hong Kong.

2. Retained Real Property. Subject to the terms and conditions of this Agreement, ESS Technology and Vialta agree that, upon the Distribution, Vialta and its Subsidiaries shall hold or retain interests the following real property:

2.1 Fremont, California. ESS Technology and Vialta are parties to a Commercial Lease Agreement dated January 1, 2001, whereby Vialta leases from ESS Technology an approximately 77,249 square foot building commonly known as 48461 Fremont Boulevard, Fremont, California ("FREMONT PROPERTY"). On the Distribution Date, ESS Technology and Vialta shall enter into an amended and restated lease of the Fremont Property in form and content of Exhibit A attached hereto.

2.2 Honolulu, Hawaii. Vialta and the Ohana Foundation for

Technical Development, a Hawaii nonprofit corporation ("OHANA"), are parties to an oral subsublease of a portion of that certain premises located at 1099 Alakea Street, Suite 2130, Honolulu, Hawaii ("HONOLULU PROPERTY"). On and after the Distribution Date, ESS Technology and Vialta shall use commercially reasonable efforts to (A) obtain Lease Consents from the Landlords to the subsubletting of the Honolulu Property by Vialta, and (B) enter a written subsublease between Vialta and Ohana.

2.3 Toronto, Canada. Vialta and 235 Investments Limited are parties to that certain Lease dated January 20, 2000, as amended, regarding that certain premises located at 235 Yorkland, Boulevard, Suite 1000, Toronto, Canada ("TORONTO PROPERTY"). On or after the Distribution Date, ESS Technology and Vialta shall use commercially reasonable efforts to obtain the Lease Consent of the Landlord.

2.4 Hong Kong, China. Vialta HK and Upcenter Investments Limited are parties to that certain Lease dated August 2, 2000 regarding that certain premises located at Units 1008-11, Tenth Floor, 238 Nathan Road, Kowloon, Hong Kong, China ("HONG KONG PROPERTY"). On or after the Distribution Date, ESS Technology and Vialta, and their Subsidiaries shall use commercially reasonable efforts to obtain the Lease Consent of the Landlord.

3. Obtaining the Lease Consents. Vialta confirms that, with respect to the Hong Kong Property, the Toronto Property and the Honolulu Property, an application has been made or will be made by Vialta or its Subsidiary by the Distribution Date to the relevant Landlord for the Lease Consents.

3.1 Declarations. Neither Vialta nor ESS Technology shall be required to commence judicial proceedings for a declaration that a Lease Consent has been unreasonably withheld or delayed.

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3.2 Lease Consents. Vialta will take or cause its applicable Subsidiary to take such commercially reasonable steps to obtain the Lease Consents as to each Relevant Lease, to wit:

3.2.1 if properly required by the Landlord, entering into an agreement with the relevant Landlord to observe and perform the tenant's obligations contained in the Relevant Lease throughout the remainder of the term of the Relevant Lease, subject to any statutory limitations of such liability;

3.2.2 if properly required by the Landlord, providing such additional guaranty, surety, deposit or other security in an amount equal to that stated in the Relevant Lease or in an amount consistent with those provided for comparable leases for comparable properties in the vicinity of the Leased Property, and otherwise take all commercially reasonable steps to meet the lawful, commercially reasonable, and fair market requirements of the Landlord,

so as to ensure that the Lease Consents are obtained;

3.2.3 Vialta shall not be required to obtain a release of any obligation entered into by ESS Technology or its Subsidiary with any Landlord or other third party with respect to any Leased Property.

3.3 Release of ESS Technology. Vialta agrees to use commercially reasonable efforts obtain the Landlord's consent to the release of any guarantee, surety or other security ESS Technology or its Subsidiaries provided Landlord and, if required, offer the guarantee, surety or other security described in Section 3.2.2 to the Landlord in order to obtain such release. If, with respect to any Leased Property, ESS Technology and Vialta are unable to obtain a release by the Landlord of any guarantee, surety or other security which ESS Technology or its Subsidiary has previously provided to the Landlord, Vialta shall indemnify, defend, protect and hold harmless ESS Technology and its Subsidiary from and after the Distribution Date against all losses, costs, claims, damages, or liabilities incurred by ESS Technology or its Subsidiary as a result of Vialta's occupancy of the Leased Property with respect to such guarantee, surety or other security.

4. Continued Occupation by Vialta. Vialta or its applicable Subsidiary shall occupy the Leased Properties on and after the Distribution Date and will be responsible for all costs, expenses and liabilities as a consequence of such occupation. Notwithstanding the foregoing, if Vialta reasonably believes that an enforcement or forfeiture action by the relevant Landlord is imminent because of the failure to obtain a Lease Consent, Vialta may immediately vacate the Leased Property. ESS Technology shall be solely responsible for any losses, claims, costs, demands and liabilities incurred Vialta or its Subsidiaries with respect to any default or breach by Vialta or its Subsidiaries of the Relevant Lease for occupying the Leased Property without obtaining a Lease Consent.

5. Communications from Landlords. ESS Technology, Vialta and their respective Subsidiaries shall promptly supply to each other any notices, demands, invoices and other communications received from any Landlord while Vialta or its applicable Subsidiary occupies any Leased Property without the relevant Lease Consent.

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6. Failure to Obtain Consent. If, with respect to any Leased Property, at any time a Lease Consent is formally and unconditionally refused in writing, ESS Technology and Vialta shall commence good faith negotiations and use commercially reasonable efforts to resolve the impasse with the Landlord. Such reasonable efforts shall include:

6.1 If requested by the Landlord, ESS Technology shall provide a guaranty, surety or other security (including, without limitation, a letter of credit) for the obligations of the tenant under the Relevant Lease.

6.2 If requested by the Landlord, ESS Technology or its Subsidiary shall accept an assignment of the Relevant Lease from Vialta or its Subsidiary and concurrently sublease the Relevant Lease back to Vialta or its Subsidiary, upon terms and conditions reasonably acceptable to the parties; provided, however, that Vialta's duties and obligations under such sublease shall be (i) no greater than ESS Technology's under the Relevant Lease and (ii) consistent with the fair market terms provided for comparable subleases for comparable properties in the vicinity of the Leased Property.

6.3 If the Landlord will not agree to the alternatives in Sections 6.1 or 6.2, (i) Vialta shall have the right to enter into a new and separate lease for other space in the geographic area of the Leased Property ("NEW PREMISES"), (ii) Vialta and ESS Technology shall negotiate with the Landlord for a termination of the Relevant Lease, and (iii) ESS Technology shall be responsible for, and shall indemnify, defend and hold harmless Vialta and its Subsidiaries from, all costs, expenses, damages and liabilities as a consequence of (a) the negotiation of and early termination of the Relevant Lease, (b) any failure of Vialta or its Subsidiaries to promptly vacate the Leased Property, (c) any enforcement or forfeiture action threatened or prosecuted by Landlord with respect to an alleged or actual breach of the Relevant Lease on the basis of Vialta's failure to obtain a Lease Consent or any other matter arising out of Vialta's rights and duties under the Distribution Agreements and the Ancillary Agreements, and (d) any moving and relocation costs incurred by Vialta or its Subsidiaries to the New Premises.

7. Casualty; Lease Termination. The parties hereto shall grant and accept assignments, leases or licenses as described in this Agreement, regardless of any casualty damage or other change in the condition of the Leased Properties.

8. Tenant's Fixtures and Fittings. The provisions of the Distribution Agreement and the other Ancillary Agreements shall apply to any trade fixtures and personal property located at each Property.

9. Costs. ESS Technology shall pay all reasonable costs and expenses (including, without limitation, Landlord's consent fees and attorneys' fees and any costs and expenses relating to re-negotiation of Relevant Leases) incurred in connection with (i) obtaining the Lease Consents, (ii) licensing and/or otherwise transferring Additional Properties to Vialta or its Subsidiaries.

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10. Miscellaneous.

10.1 Incorporation of Distribution Agreement. The miscellaneous provisions provided in Article V of the Distribution Agreement are incorporated herein by reference as though set forth in full, excepting only Section 5.15 of the Distribution Agreement.

10.2 Other Agreements. This Agreement is not intended to address, and should not be interpreted to address, the matters expressly covered by the Distribution Agreement and/or the other Ancillary Agreements. In the event of a conflict between this Agreement and the Distribution Agreement and/or any other Ancillary Agreement executed in connection herewith, the provisions of this Agreement shall prevail.

10.3 Disputes. Any and all controversies, disputes or claims arising out of, relating to, in connection with or resulting from this Agreement (or any amendment thereto or any transaction contemplated hereby or thereby), including as to its existence, interpretation, performance, non-performance, validity, breach or termination, including any claim based on contract, tort, statute or constitution and any claim raising questions of law, whether arising before or after termination of this Agreement, shall be deemed a Dispute as defined in Section 4.6 of the Distribution Agreement and shall be resolved exclusively by, in accordance with, and subject to the procedures and limitations set forth in, Section 4.6 of the Distribution Agreement.

IN WITNESS WHEREOF, each of the parties has caused this Real Estate Matters Agreement to be executed on its behalf by its officers thereunto duly authorized on the day and year first above written.

ESS TECHNOLOGY, INC.,
a California corporation

VIALTA, INC.,
a Delaware corporation

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

MASTER CONFIDENTIAL DISCLOSURE AGREEMENT

BETWEEN

ESS TECHNOLOGY, INC.

AND

VIALTA, INC.

EFFECTIVE AS OF _____, 2001

MASTER CONFIDENTIAL DISCLOSURE AGREEMENT

This Master Confidential Disclosure Agreement ("AGREEMENT") is effective as of _____, 2001 ("EFFECTIVE Date"), between ESS TECHNOLOGY, INC., a California corporation ("ESS"), and VIALTA, Inc., a California corporation ("VIALTA"). ESS and Vialta are sometimes referred to herein as the "party" or the "parties."

WHEREAS, the Board of Directors of each of ESS and Vialta have determined that it is in the best interest of ESS and its stockholders to separate ESS's existing businesses into two independent businesses;

WHEREAS, as part of the foregoing, ESS and Vialta have entered into a Distribution Agreement (as defined below), which provides, among other things, for the separation of certain Vialta assets and Vialta liabilities, the initial public offering of Vialta stock, the distribution of such stock and the execution and delivery of certain other agreements in order to facilitate and provide for the foregoing; and

WHEREAS, also as part of the foregoing, the parties further desire to enter into this Agreement to provide for the protection of their Confidential Information (as defined below).

NOW, THEREFORE, in consideration of the mutual promises of the parties, and of good and valuable consideration, it is agreed by and between the parties as follows:

AGREEMENT

1. Definitions. the following terms, when capitalized herein, shall have the meanings set forth below in this Section 1. unless indicated

otherwise, all other capitalized terms which are used but are not otherwise defined herein shall have the meanings ascribed to them in the Distribution Agreement.

1.1 "ANCILLARY AGREEMENTS" means the items and agreements listed in Section 2.1 of the Distribution Agreement and all agreements and documents contemplated by such agreements.

1.2 "CONFIDENTIAL INFORMATION" shall mean any and all financial, technical, commercial or other information of ESS or Vialta, as appropriate (whether written or oral), including, without limitation, all information, notes, client lists and records, reports, analyses, financial statements, compilations, studies, forms, business or management methods, marketing data, fee schedules, information technology systems and programs, projections, forecasts or trade secrets of ESS or Vialta, as applicable, whether or not such Confidential Information is disclosed or otherwise made available to one party by the other party pursuant to this Agreement. Confidential Information shall also include the terms and provisions of this Agreement and any transactions consummated or documents executed by the parties pursuant to this Agreement. Confidential Information does not include any information that (i) is or becomes generally available to and known by the public (other than as a result of an unpermitted disclosure directly or indirectly by the Receiving Party or its affiliates, advisors or representatives); (ii) hereafter becomes available to the

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Receiving Party on a nonconfidential basis from a source other than the Disclosing Party or its affiliates, advisors or representatives, provided that such source is not and was not bound by a confidentiality agreement with or other obligation of secrecy to the Disclosing Party; or (iii) has already been independently developed without any involvement by the Disclosing Party, or is hereafter independently acquired or developed, by the Receiving Party without violating any confidentiality agreement with or other obligation of secrecy to the Disclosing Party.

1.3 "CONFIDENTIALITY PERIOD" means in perpetuity, after either (A) the Distribution Date with respect to Confidential Information of the Disclosing Party that is known to or in the possession of the Receiving Party as of the Distribution Date or (B) the date of disclosure with respect to Confidential Information that is disclosed by the Disclosing Party to the Receiving Party after the Distribution Date.

1.4 "DISCLOSING PARTY" means the party owning or disclosing the relevant Confidential Information.

1.5 "DISPUTES" has the meaning set forth in Section 6 ("Dispute Resolution").

1.6 "DISTRIBUTION AGREEMENT" means the Distribution Agreement between the parties.

1.7 "DISTRIBUTION DATE" has the meaning set forth in the Distribution Agreement.

1.8 "PERSON" means any individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or governmental entity or any department, agency or political subdivision thereof.

1.9 "RECEIVING PARTY" means the non-owning party or recipient of Confidential Information from the Disclosing Party.

1.10 "RESIDUALS" means information (that is not protected by trade secret laws or by a patent of the Disclosing Party) retained in the unaided memory of an individual who has had access to Confidential Information without conscious attempt by such individual to memorize such information.

1.11 "SUBSIDIARY" has the meaning defined for that term in the Distribution Agreement.

1.12 "THIRD PARTY" means a Person other than ESS, its Subsidiaries and their respective employees and Vialta, its Subsidiaries and their respective employees.

1.13 "TRANSACTION AGREEMENTS" means the Distribution Agreement and the Ancillary Agreements.

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2. Confidentiality.

2.1 Confidentiality and Non-use Obligations. During the Confidentiality Period, the Receiving Party shall (i) protect the Confidential Information of the Disclosing Party by using the same degree of care, but no less than a reasonable degree of care, to prevent the unauthorized use, dissemination, or publication of the Confidential Information as the Receiving Party uses to protect its own Confidential Information of a like nature, (ii) not use such Confidential Information except as expressly permitted under this Agreement, in the Transaction Agreements or in any other agreements entered into between the parties in writing, without prior written consent of the Disclosing Party, and (iii) maintain all Confidential information in trust and confidence and (iv) not disclose such Confidential Information to any Third Party, except as expressly permitted under this Agreement, in the Transaction Agreements or in any other agreements entered into between the parties in writing, without prior written consent of the Disclosing Party.

2.2 Disclosure To Sublicensees. The Receiving Party has the

right to disclose to its permitted sublicensees portions of Confidential Information as reasonably necessary in the exercise of the Receiving Party's right to grant sublicenses that is expressly granted under any Transaction Agreement, subject to the sublicensee's agreement in writing to confidentiality and non-use terms at least as protective of the Disclosing Party's Confidential Information as the provisions of this Agreement.

2.3 Contract Manufacturers. The Receiving Party has the right to disclose to its permitted contract manufacturers portions of the Confidential Information as reasonably necessary in the exercise of the Receiving Party's "have made" rights that are expressly granted under any Transaction Agreement, subject to the contract manufacturer's agreement in writing to confidentiality and non-use terms at least as protective of the Disclosing Party's Confidential Information as the provisions of this Agreement.

2.4 Residuals. Notwithstanding any other provision of this Agreement, the Receiving Party shall be free, and the Disclosing Party hereby grants to the Receiving Party, except as otherwise provided in this Section 2.4 ("Residuals") the right, to use for any purpose the Residuals resulting from access to or work with the Confidential Information of the Disclosing Party. However, neither party may use Residuals in the other party's field of business as such field exists on the Separation Date. The Receiving Party shall have no obligation to pay royalties for any use of Residuals. However, this Section 2.4 ("Residuals") does not grant the Receiving Party any rights under any patents, copyrights or trade secrets of the Disclosing Party and does not operate to relieve the Receiving Party from paying royalties to the Disclosing Party under any future patent, trade secret or copyright license between them.

2.5 Compelled Disclosure. If the Receiving Party or any of its respective Subsidiaries believes that it will be compelled by a court or other authority to disclose Confidential Information of the Disclosing Party, it shall (i) give the Disclosing Party prompt and timely written notice so that the Disclosing Party may take steps to oppose such disclosure and (ii) cooperate with

the Disclosing Party in its attempts to oppose such disclosure. If the Receiving Party complies with the above, it shall not be prohibited from complying with such requirements to disclose, but shall cooperate with the Disclosing Party to take all reasonable steps to make such disclosure subject to a suitable protective order or otherwise prevent unrestricted or public disclosure. Notwithstanding anything to the contrary, the parties may permissibly disclose Confidential Information in public filings before the Securities and Exchange Commission associated with the Distribution Agreement and Ancillary Agreements.

2.6 No Restriction On Disclosing Party. Nothing in this Agreement shall restrict the Disclosing Party from using, disclosing, or disseminating its own Confidential Information in any way provided that, in so

doing, it does not use, disclose or disseminate any Confidential Information of the Receiving Party.

2.7 No Restriction On Reassignment. This Agreement shall not restrict reassignment of the Receiving Party's employees.

2.8 Third Party Restrictions. Nothing in this Agreement supersedes any restriction imposed by Third Parties on their Confidential Information, and there is no obligation on the Disclosing Party to conform Third Party agreements to the terms of this Agreement.

3. Warranty Disclaimer.

EACH PARTY ACKNOWLEDGES AND AGREES THAT ALL CONFIDENTIAL INFORMATION IS PROVIDED ON AN "AS IS, WHERE IS" BASIS AND THAT NEITHER PARTY NOR ANY OF ITS SUBSIDIARIES HAS MADE OR WILL MAKE ANY WARRANTY WHATSOEVER WITH RESPECT TO CONFIDENTIAL INFORMATION, EXPRESS, IMPLIED OR STATUTORY, INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE, ENFORCEABILITY OR NON-INFRINGEMENT.

4. Confidentiality of Agreement.

4.1 Obligations. Each party agrees that the Transaction Agreements and the terms and conditions thereof shall be treated as Confidential Information and that neither party will disclose such terms or conditions to any Third Party without the prior written consent of the other party, provided, however, that each party may disclose such terms and conditions of the Transaction Agreements marked as confidential:

4.1.1 as required by any court or other governmental body (subject to Section 2.5("Compelled Disclosure"));

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4.1.2 as otherwise required by law (subject to Section 2.5 ("Compelled Disclosure"));

4.1.3 in confidence, to legal counsel of the parties, and their respective accountants, and other professional advisors to the extent necessary and appropriate;

4.1.4 in confidence to the parties' respective banks, investors and other financing sources and their advisors to the extent necessary and appropriate;

4.1.5 in connection with the enforcement of the Transaction Agreements to the extent necessary and appropriate; or

4.1.6 in confidence, in connection with an actual or prospective merger or acquisition or similar transaction involving a party hereto, to the extent necessary and appropriate.

4.2 Ownership of Confidential Information. All Confidential Information of Discloser, and any Derivatives thereof whether created by such Discloser or the other party, as Recipient, shall remain the property of Discloser, and no license or other rights to Discloser's Confidential Information or Derivatives is granted or implied hereby. For purposes of this Agreement, "DERIVATIVES" shall mean: (a) for copyrightable or copyrighted material, any translation, abridgment, revision or other form in which an existing work may be recast, transformed or adapted; (b) for patentable or patented material, any improvement thereon; and (c) for material which is protected by trade secret, any new material derived from such existing trade secret material, including new material which may be protected under copyright, patent and/or trade secret laws. All materials (including, without limitation, documents, drawings, models, apparatus, sketches, designs, lists and all other tangible media of expression) furnished by Discloser, Recipient, and which are designated in writing to be the property of Discloser, shall remain the property of Discloser.

5. Term And Termination.

5.1 Term. This Agreement shall remain in full force and effect unless and until terminated by the mutual written agreement of the parties.

5.2 Survival. Sections 4 ("Confidentiality of Agreement") (with respect to Confidential Information acquired or disclosed prior to the date of termination), 3 ("Warranty Disclaimer"), 4 ("Confidentiality of Agreement"), 6 ("Dispute Resolution"), and 7 ("Miscellaneous Provisions") shall survive any termination of this Agreement.

6. Dispute Resolution. Any and all controversies, disputes or claims arising out of, relating to, in connection with or resulting from this Agreement (or any amendment thereto or any transaction contemplated hereby or thereby), including as to its existence, interpretation, performance, non-performance, validity, breach or termination, including any claim based on contract, tort, statute or constitution and any claim raising questions of law, whether arising before or

after termination of this Agreement, shall be deemed a Dispute as defined in Section 4.6 of the Distribution Agreement and shall be resolved exclusively by, in accordance with, and subject to the procedures and limitations set forth in, Section 4.6 of the Distribution Agreement.

7. Miscellaneous Provisions.

7.1 Incorporation of Distribution Agreement. The miscellaneous provisions provided in Article V of the Distribution Agreement are incorporated herein by reference as though set forth in full, excepting only Section 5.15 of the Distribution Agreement.

7.2 Other Agreements. This Agreement is not intended to address, and should not be interpreted to address, the matters expressly covered by the Distribution Agreement and/or the other Ancillary Agreements. In the event of a conflict between this Agreement and the Distribution Agreement and/or any other Ancillary Agreement executed in connection herewith, the provisions of this Agreement shall prevail.

7.3 Injunctive Relief. A breach by either party of any of the promises or agreements contained herein will result in irreparable and continuing damage to the other party for which there will be no adequate remedy at law, and such other party shall be entitled to injunctive relief and/or a decree for specific performance, and such other relief as may be proper (including monetary damages if appropriate).

7.4 Export Restrictions. Both parties shall adhere to all applicable laws, regulations and rules relating to the export of technical data, and shall not export or reexport any technical data, any products received from Disclosing Party, or the direct product of such technical data, to any proscribed country listed in such applicable laws, regulations and rules unless properly authorized.

7.5 No Implied Rights. Nothing contained in this Agreement shall be construed as conferring any rights by implication, estoppel or otherwise, under any intellectual property right, other than the rights expressly granted in this Agreement with respect to Confidential Information.

7.6 Infringement Suits. Neither party shall have any obligation hereunder to institute any action or suit against Third Parties for misappropriation of any of its Confidential Information or to defend any action or suit brought by a Third Party that alleges infringement of any intellectual property rights by the Receiving Party's authorized use of the Disclosing Party's Confidential Information.

WHEREFORE, the parties have signed this Master Confidential Disclosure Agreement effective as of the Effective Date.

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ESS TECHNOLOGY, INC.

VIALTA, INC.

By:

By:

Name:

Name:

Title:

Title:

MASTER TRANSITIONAL SERVICES AGREEMENT

BETWEEN

ESS TECHNOLOGY, INC.

AND

VIALTA, INC.

EFFECTIVE AS OF _____, 2001

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MASTER TRANSITIONAL SERVICES AGREEMENT

This Master Transitional Services Agreement (the "AGREEMENT") is effective as of _____, 2001 between ESS Technology, Inc., a California corporation ("ESS"), having an office at 48401 Fremont Boulevard, Fremont, California and Vialta, Inc., a Delaware corporation ("VIALTA"), having an office at 48460 Fremont Boulevard, Fremont, California. ESS and Vialta are sometimes referred to herein individually as a "PARTY" or collectively as the "PARTIES."

1. Definitions. The following terms, when capitalized herein, shall have the meanings set forth below in this Section 1. Unless indicated otherwise, all other capitalized terms which are used but are not otherwise defined herein shall have the meanings ascribed to them in the Distribution Agreement.

1.1 "ESS TECHNOLOGY GROUP" shall have the meaning set forth in Section 6.11 of the Master Distribution Agreement.

1.2 "ADDITIONAL SERVICES" shall have the meaning set forth in Section 3.5.

1.3 "ANCILLARY AGREEMENTS" shall have the meaning set forth in Section 2.1 of the Master Distribution Agreement.

1.4 "DISPUTES" shall have the meaning set forth in Section 4.6 of the Master Distribution Agreement.

1.5 "DISTRIBUTION DATE" shall have the meaning set forth in Section 3.2(a) of the Master Distribution Agreement.

1.6 "IMPRACTICABLE" shall have the meaning set forth in Section 3.3.

1.7 "MASTER CONFIDENTIAL DISCLOSURE AGREEMENT" shall mean that certain Master Confidential Disclosure Agreement dated _____, 2001 between ESS and Vialta.

1.8 "MASTER DISTRIBUTION AGREEMENT" shall mean that certain Master Distribution Agreement dated _____, 2001 between ESS and Vialta.

1.9 "SERVICE(s)" shall have the meaning set forth in Section 3.1.

1.10 "SUBCONTRACTOR" shall have the meaning set forth in Section 9.

1.11 "SUBSIDIARY" shall have the meaning set forth in Section 6.26 of the Master Distribution Agreement.

1.12 "TRANSITION SERVICE SCHEDULE" shall have the meaning set forth in Section 2.1.

1.13 "VIALTA GROUP" shall have the meaning set forth in Section 6.29 of the Master Distribution Agreement.

2. Transition Service Schedules.

2.1 Transition Service Schedules. This Agreement will govern individual transitional services as requested by Vialta and provided by ESS, the details of which are set forth in the Transition Service Schedules (each transition service schedule, a "TRANSITION SERVICE SCHEDULE") attached to this Agreement. Each Service shall be covered by this Agreement upon execution of a Transition Service Schedule in the form attached hereto.

2.2 Operation of Schedules. For each Service, the Transition Service Schedule shall be signed by a duly authorized representative of each party and set forth, among other things, the time period during which the Service will be provided if different from the term of this Agreement determined pursuant to Section 4 a summary of the Service to be provided; a description of the Service; and the estimated charge, if any, for the Service and any other terms applicable thereto. Obligations regarding each Transition Service Schedule shall be effective upon execution of this Agreement, or, if a particular Transition Service Schedule is amended or a new Transition Service Schedule is executed after the execution of this Agreement, the obligations created by such amendment or new Transition Service Schedule shall be effective upon execution of such amendment or such new Transition Service Schedule. This Agreement and all the Transition Service Schedules shall be defined as the "AGREEMENT" and the Transition Service Schedules are incorporated herein as though set forth in full.

3. Services.

3.1 Services Generally. Except as otherwise provided herein, for the term determined pursuant to Section 4, ESS shall provide or cause to be provided to Vialta the service(s) described in the Transition Service Schedule(s) attached hereto. The service(s) described on a single Transition Service Schedule shall be referred to herein as a "SERVICE." Collectively, the services described on all the Transition Service Schedules (including Additional Services) shall be referred to herein as "SERVICES."

3.2 Service Boundaries. Except as provided in a Transition Service Schedule for a specific Service: (i) ESS shall be required to provide the Services only to the extent and only at the locations such Services are being provided by ESS for Vialta immediately prior to the Distribution Date; and (ii) the Services will be available only for purposes of conducting the business of Vialta substantially in the manner it was conducted prior to the Distribution Date.

3.3 Impracticability. ESS shall not be required to provide any Service to the extent the performance of such Service becomes "Impracticable" as a result of a cause or causes outside the reasonable control of ESS despite the ESS's good faith diligent efforts to provide the relevant Service including unfeasible technological requirements, or to the extent the performance of such Services (i) would require ESS to violate any applicable laws, rules or regulations or (ii) would result in the material breach of any software license or other applicable contract.

3.4 Additional Resources. Except as provided in a Transition Service Schedule for a specific Service, in providing the Services, ESS shall not be obligated to: (i) hire any additional

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employees; (ii) maintain the employment of any specific employee; (iii) purchase, lease or license any additional equipment or software; or (iv) pay any costs related to the transfer or conversion of Vialta's data to Vialta or any alternate supplier of Services. Prior to executing a Transition Service Schedule, the parties shall in good faith attempt to determine whether any of actions described in immediately preceding clauses (i), (ii) or (iii) would be required for ESS to perform the contemplated Services.

3.5 Additional Services. From time to time after the Distribution Date, the parties may identify Services other than those described on the Transition Service Schedules attached hereto, that ESS shall provide to Vialta in accordance with the terms of this Agreement (the "ADDITIONAL SERVICES"). Accordingly, the parties shall execute additional Transition Service Schedules for such Additional Services pursuant to Section 2.1.

3.6 Obligations As To Additional Services. Except as set forth in the next sentence, ESS shall be obligated to perform, at a charge determined using the principles for determining fees under Section 5.1, any Additional Service that: (i) was provided by ESS immediately prior to the Distribution Date and that Vialta reasonably believes was inadvertently or unintentionally omitted from the list of Services described in the Transition Service Schedules attached hereto, or (ii) is in the reasonable opinion of the parties necessary or desirable to effectuate an orderly transition of Vialta's business under the Master Distribution Agreement unless such performance would significantly disrupt ESS's operations or materially increase the scope of its responsibility under this Agreement. If ESS reasonably believes the performance of Additional Services required under subparagraphs (i) or (ii) would materially and adversely disrupt its operations or materially increase the scope of its responsibility under this Agreement, ESS and Vialta shall negotiate in good faith to establish terms under which ESS shall provide such Additional Services, but ESS shall not be obligated to provide such Additional Services if, following good faith negotiation, the parties are unable to reach agreement on such terms.

4. Term. The term of this Agreement shall commence on the Distribution Date and shall remain in effect until one (1) year after the Distribution Date (the "EXPIRATION DATE"), unless earlier terminated under Section 7. This Agreement may be extended by the parties in writing, either in whole or with respect to one or more of the Services; provided, however, that such extension shall only apply to the Services for which the Agreement was extended. The parties shall be deemed to have extended this Agreement with respect to a specific Service if the Transition Service Schedule for such Service specifies a completion date beyond the aforementioned Expiration Date. The parties may agree on an earlier expiration date respecting a specific Service by specifying such date on the Transition Service Schedule for that Service.

5. Compensation.

5.1 Charges For Services. Vialta shall pay ESS the charges, if any, set forth on the Transition Service Schedules for each of the Services listed therein as adjusted, from time to time, in accordance with the processes and procedures established under Section 5.4 and Section 5.5. Such fees shall include the actual costs, as determined using the process described in such Transition Service Schedule, of providing the Services, unless specifically indicated otherwise on a Transition

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Service Schedule. The parties also intend for charges to be easy to administer and justify and, therefore, they hereby acknowledge it may be counterproductive to try to recover every cost, charge or expense, particularly those that are insignificant or de minimus. The parties shall use good faith efforts to discuss any situation in which the actual charge for a Service is reasonably expected to exceed the estimated charge, if any, set forth on a Transition Service Schedule for a particular Service; provided, however, that the incurrence of charges in excess of any such estimate on such Transition Service Schedule shall not justify stopping the provision of, or payment for, Services under this Agreement.

5.2 Payment Terms. ESS shall bill Vialta monthly for all charges pursuant to this Agreement. Such bills shall be accompanied by reasonable documentation or other reasonable explanation supporting such charges. Vialta shall pay ESS for all Services provided hereunder within forty-five (45) days after receipt of an invoice therefor. Late payments shall bear interest at the lesser of 12% per annum or the maximum rate allowed by law.

5.3 Performance Under Ancillary Agreements. Notwithstanding anything to the contrary contained herein, Vialta shall not be charged under this Agreement for any obligations that are specifically required to be performed under the Master Distribution Agreement or any other Ancillary Agreement and any such other obligations shall be performed and any charge therefore levied in accordance with the terms of the Master Distribution Agreement or such other Ancillary Agreement.

5.4 Error Correction; True-Ups; Accounting. The parties shall reasonably agree in writing on a process and procedure for conducting internal audits and making adjustments to charges as a result of the movement of employees and functions between parties, the discovery of errors or omissions in charges, as well as a true-up of amounts owed. In no event shall such processes and procedures extend beyond two (2) years after completion of a Service.

5.5 Pricing Adjustments. In the event of a tax audit adjustment relating to the pricing of any or all Services provided pursuant to this Agreement in which it is determined by a taxing authority that any of the charges, individually or in combination, did not result in an arm's-length payment, as determined under internationally accepted arm's-length standards, then the parties, including any ESS subcontractor providing Services hereunder, may agree to make corresponding adjustments to the charges in question for such period to the extent necessary to achieve arm's-length pricing. Any adjustment made pursuant to this Section 5.5, at any time during the term of this Agreement or after termination of this Agreement shall be reflected in the parties' legal books and records, and the resulting underpayment or overpayment shall create, respectively, an obligation to be paid in the manner specified in Section 5.2 ("Payment Terms") or shall create a credit against amounts owed under this Agreement.

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6. General Obligations; Standard Of Care.

6.1 Performance Metrics: ESS. Subject to Section 3.4 and any other terms and conditions of this Agreement, ESS shall maintain sufficient resources to perform its obligations hereunder and under the Transition Service Schedules. Specific performance metrics for ESS for a specific Service may be set forth in the corresponding Transition Service Schedule. Where none are set forth, ESS shall provide Services in accordance with the policies, procedures and practices in effect before the Distribution Date relating to or in connection with Vialta's business operations and shall exercise the same care and skill as it exercises in performing similar services for itself.

6.2 Performance Metrics: Vialta. Specific performance metrics for Vialta for a specific Service may be set forth in the corresponding Transition Service Schedule. Where none is set forth, Vialta shall use reasonable efforts, in connection with receiving Services, to follow the policies, procedures and practices in effect before the Distribution Date including providing information and documentation sufficient for ESS to perform the Services as they were performed before the Distribution Date and making available, as reasonably requested by ESS, adequate personnel and timely decisions, approvals and acceptances in order that ESS may accomplish its obligations hereunder in a timely manner.

6.3 Transitional Nature Of Services; Changes. The parties acknowledge the transitional nature of the Services and that ESS may make changes from time to time in the manner of performing the Services if (i) ESS is making similar changes in performing similar services for itself (ii) such change does not adversely impact Vialta, and (iii) if ESS furnishes to Vialta sixty (60) days prior written notice regarding such changes.

6.4 Responsibility For Errors; Delays. ESS's sole responsibility to Vialta:

6.4.1 for errors or omissions in Services, other than errors or omissions attributable to ESS's gross negligence or willful misconduct, shall be to furnish correct information, payment and/or adjustment in the Services, at no additional cost or expense to Vialta; provided Vialta must advise ESS of any such error or omission of which it becomes aware.

6.4.2 for failure to deliver any Service because of Impracticability, shall be to make any portion of the Services which are not Impracticable available and/or to resume performing the Services which are or have become Impracticable as promptly as reasonably practicable.

6.5 Good Faith Cooperation; Consents. The parties will use good faith efforts to cooperate with each other in all matters relating to the provision and receipt of Services. Such cooperation shall include exchanging information, performing true-ups and adjustments, and obtaining all third party consents, licenses, sublicenses or approvals necessary to permit each party to perform its obligations hereunder and under any Transition Service Schedule (including by way of example, not by way of limitation, rights to use third party software needed for the performance of Services). The reasonable and documented costs of obtaining such third party consents, licenses, sublicenses or approvals shall be borne by Vialta. The parties will maintain in accordance with their

respective standard document retention procedures, documentation supporting the information relevant to cost calculations contained in the Transition Service Schedules and cooperate with each other in making such information available as needed in the event of a tax audit, whether in the United States or any other country.

6.6 Alternatives. If ESS is unable to provide any Service because of a failure to obtain necessary consents, licenses, sublicenses or approvals pursuant to Section 6.6 or because of Impracticability, the parties shall mutually and reasonably determine the best alternative approach. Until such alternative approach is found or the problem otherwise resolved to the satisfaction of the parties, ESS shall use diligent efforts to continue providing the Service. To the extent a mutually agreed upon alternative approach requires payment above and beyond that which is included in ESS's charge for the Service in question, the parties shall share equally in making any such payment unless they otherwise agree in writing.

7. Termination. Vialta may terminate this Agreement, either with respect to all or with respect to any one or more of the Services provided to Vialta hereunder, for any reason or for no reason, at any time upon thirty (30) days prior written notice to ESS. In addition, subject to the provisions of Section 11 ("Dispute Resolution"), either party may terminate this Agreement with respect to a specific Service if the other party materially breaches a material provision with regard to that particular Service and does not cure such breach (or does not take substantial steps required under the circumstances to cure such breach) within thirty (30) days after being given written notice of the breach.

7.1 Survival. In the event of any termination with respect to one or more, but less than all Services, this Agreement shall continue in full force and effect with respect to any Services not terminated in accordance with the terms of this Agreement.

7.2 User Ids, Passwords. Each of the parties shall use good faith efforts at the termination or expiration of this Agreement, any specific Service hereunder or any Transition Service Schedule attached hereto to ensure that all applicable user IDs and passwords issued to such party by the other party are canceled or returned, as applicable.

8. Relationship Between the Parties. It is expressly acknowledged that the parties are "independent contractors," and nothing in this Agreement is intended and nothing shall be construed to allow either party to exercise control or direction over the manner or method by which the other party performs the Services that are the subject matter of this Agreement; provided, that the Services to be provided hereunder shall be furnished in a manner consistent with the standards governing such Services and the provisions of this Agreement. Each party understands and agrees that (i) neither party will withhold on behalf of the other party any sums for income tax, unemployment insurance, social security or any other withholding pursuant to any law or requirement of any governmental body or make available any of the benefits afforded to its employees, (ii) all of such payments, withholdings and benefits, if any, are the sole responsibility of the party incurring the liability, and (iii) each party will indemnify and hold the other harmless from any and all loss or liability arising with respect to such payments, withholdings and benefits, if any.

9. Subcontractors. With Vialta's prior written consent, ESS may engage a "Subcontractor" to perform all or any portion of ESS's duties under this Agreement, provided that any such Subcontractor agrees in writing to be bound by confidentiality obligations at least as protective as the terms of Section 10, regarding confidentiality, and provided further that ESS remains responsible for the performance of such Subcontractor. As used in this Agreement, "SUBCONTRACTOR" will mean any individual, partnership, corporation, firm, association, unincorporated organization, joint venture, trust or other entity engaged to perform hereunder.

10. Confidentiality. The terms of the Master Confidential Disclosure Agreement between the parties shall apply to any Confidential Information (as defined therein) which is the subject matter of this Agreement.

11. Dispute Resolution. Any and all controversies, disputes or claims

arising out of, relating to, in connection with or resulting from this Agreement (or any amendment thereto or any transaction contemplated hereby or thereby), including as to its existence, interpretation, performance, non-performance, validity, breach or termination, including any claim based on contract, tort, statute or constitution and any claim raising questions of law, whether arising before or after termination of this Agreement, shall be deemed a Dispute as defined in Section 4.6 of the Distribution Agreement and shall be resolved exclusively by, in accordance with, and subject to the procedures and limitations set forth in, Section 4.6 of the Distribution Agreement.

12. Miscellaneous.

12.1 Incorporation of Distribution Agreement. The miscellaneous provisions provided in Article V of the Distribution Agreement are incorporated herein by reference as though set forth in full, excepting only Section 5.15 of the Distribution Agreement.

12.2 Other Agreements. This Agreement is not intended to address, and should not be interpreted to address, the matters expressly covered by the Distribution Agreement and/or the other Ancillary Agreements. In the event of a conflict between this Agreement and the Distribution Agreement and/or any other Ancillary Agreement executed in connection herewith, the provisions of this Agreement shall prevail.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed in duplicate originals by its duly authorized representatives.

ESS TECHNOLOGY, INC.,

VIALTA, INC.,

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

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TRANSITION SERVICE SCHEDULE TO MASTER TRANSITIONAL SERVICES AGREEMENT

1. TRANSITION SERVICE SCHEDULE #: _____ (To be inserted by responsible individual or department.)

2. FUNCTIONAL AREA:

3. START/END DATE: The Services start on the effective date of the Master Transitional Services Agreement between ESS Technology, Inc. ("ESS") and Vialta, Inc. ("VIALTA") to which this Transition Service Schedule is attached and end on the conclusion of the term of the Master Services Agreement unless otherwise indicated below.

Indicate below if other start/end date:

START DATE: _____

END DATE: _____

If Start and End dates vary by service and/or country, please indicate in Section 5 ("List of Services to be Provided per Country and Site").

4. SUMMARY OF SERVICES (Describe the service to be provided in appropriate detail.)

SERVICE NAME	DESCRIPTION
<S>	<C>

5. LIST OF SERVICES TO BE PROVIDED PER COUNTRY AND SITE: (List all the

services to be provided at each site. Enter Start Date and End Date if different than Section 3 ("Start/End Date").

<TABLE>
 <CAPTION>
 COUNTRY SITE SERVICE (s) START DATE END DATE
 <S> <C> <C> <C> <C>

</TABLE>

- 6. PERFORMANCE PARAMETERS/SERVICE LEVEL: (State minimum performance expected from each service, if applicable.):
- 7. ESTIMATED TOTAL COMPENSATION:
- 8. DESCRIBE COST METHODOLOGY AND COST DRIVERS AFFECTING ESTIMATED TOTAL COMPENSATION (Describe on an individual service basis if necessary.):
- 9. DESCRIBE THE PROCESS BY WHICH THE COST OF SERVICES WILL BE ADJUSTED IN THE INSTANCE OF AN INCREASE/REDUCTION IN THE SERVICES PROVIDED: (Describe on an individual service basis if necessary.)
- 10. SOFTWARE: Will software be used or included with the Services to be provided under this Transition Service Schedule? Yes No

10 If yes, will source code be provided? Yes No
 List software to be provided:

<TABLE>
 <S> <C>
 Software Application Number of Licenses to be Provided

</TABLE>

Upon execution of this Transition Service Schedule by both parties, this Transition Service Schedule is hereby deemed incorporated into and made part of that certain Master Transitional Services Agreement between ESS, Inc. and Vialta, Inc.

ESS TECHNOLOGY, INC., VIALTA, INC.,
 By: _____ By: _____
 (Authorized Signature) (Authorized Signature)
 Name: _____ Name: _____
 Title: _____ Title: _____

VIALTA, INC.
2001 NONSTATUTORY STOCK OPTION PLAN

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

1.1 ESTABLISHMENT. The Vialta, Inc. 2001 Nonstatutory Stock Option Plan (the "PLAN") is hereby established effective as of July 24, 2001.

1.2 PURPOSE. The purpose of the Plan is to advance the interests of the Participating Company Group and its shareholders by providing an incentive to attract, retain and reward persons performing services for the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group.

1.3 TERM OF PLAN. The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Options granted under the Plan have lapsed. However, all Options shall be granted, if at all, within ten (10) years from the earlier of the date the Plan is adopted by the Board or the date the Plan is duly approved by the shareholders of the Company.

2. DEFINITIONS AND CONSTRUCTION.

2.1 DEFINITIONS. Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "BOARD" means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, "BOARD" also means such Committee(s).

(b) "CODE" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(c) "COMMITTEE" means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

(d) "COMPANY" means Vialta, Inc., a Delaware corporation, or any successor corporation thereto.

(e) "CONSULTANT" means a person engaged to provide consulting or advisory services (other than as an Employee or a Director) to a Participating Company, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such

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person pursuant to the Plan pursuant to registration on a Form S-8 Registration Statement under the Securities Act.

(f) "DIRECTOR" means a member of the Board or of the board of directors of any other Participating Company.

(g) "DISABILITY" means the inability of the Optionee, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of the Optionee's position with the Participating Company Group because of the sickness or injury of the Optionee.

(h) "DISTRIBUTION" means the distribution by ESS to the holders of its common stock, \$0.001 par value, by means of a pro rata distribution, of all the shares of the Company's common stock owned by ESS pursuant to the terms of the Master Distribution Agreement between ESS and the Company.

(i) "DISTRIBUTION DATE" means the date on which ESS first ceases to be a member of the Participating Company Group.

(j) "DISTRIBUTION OPTION" means an Option granted by the Company as part of the adjustment of stock options granted or assumed by ESS to reflect the separation as an independent corporation of the Company from ESS effectuated by the Distribution.

(k) "EMPLOYEE" means any person treated as an employee (including an Officer or a Director who is also treated as an employee) in the records of a Participating Company and that neither service as a Director nor payment of a director's fee shall be sufficient to constitute employment for purposes of the Plan. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual's employment or termination of employment, as the case may be. For purposes of an individual's rights, if any, under the Plan as of the time of the Company's determination, all such determinations by the Company shall be final, binding and conclusive, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination.

(l) "ESS" means ESS Technology, Inc., a Delaware corporation.

(m) "ESS PARTICIPATING COMPANY GROUP" means at any point in time, all corporations which are, at that time, a parent corporation as defined by Section 424(e) of the Code or a subsidiary corporation as defined by Section

(n) "ESS SERVICE" means employment service performed for any member of the ESS Participating Company Group, whether in the capacity as an employee, consultant, or director. A Participant's ESS Service shall not be deemed to have terminated merely because of a change in the capacity in which such Participant renders service to the ESS Participating Company Group or a change in the member of the ESS Participating Company Group for which the Participant renders such ESS Service.

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(o) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(p) "FAIR MARKET VALUE" means, as of any date, the value of a share of Stock or other property as determined by the Board, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

(i) If, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so quoted instead) as quoted on the Nasdaq National Market, The Nasdaq SmallCap Market or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in The Wall Street Journal or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Board, in its discretion.

(ii) If, on such date, the Stock is not listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be as determined by the Board in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse.

(q) "INSIDER" means an Officer, a Director of the Company or other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(r) "NONSTATUTORY STOCK OPTION" means an Option not intended to be (as set forth in the Option Agreement) or which does not qualify as an incentive stock option within the meaning of Section 422(b) of the Code.

(s) "OFFICER" means any person designated by the Board as an officer of the Company.

(t) "OPTION" means a right to purchase Stock pursuant to the terms and conditions of the Plan. Options granted under the Plan shall be treated as Nonstatutory Stock Options.

(u) "OPTION AGREEMENT" means a written agreement between the Company and an Optionee setting forth the terms, conditions and restrictions of the Option granted to the Optionee and any shares acquired upon the exercise thereof. An Option Agreement may consist of a form of "Notice of Grant of Stock Option" and a form of "Stock Option Agreement" incorporated therein by reference, or such other form or forms as the Board may approve from time to time.

(v) "OPTIONEE" means a person who has been granted one or more Options.

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(w) "PARENT CORPORATION" means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(x) "PARTICIPATING COMPANY" means the Company or any Parent Corporation or Subsidiary Corporation.

(y) "PARTICIPATING COMPANY GROUP" means, at any point in time, all corporations collectively which are then Participating Companies.

(z) "RULE 16B-3" means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(aa) "SECURITIES ACT" means the Securities Act of 1933, as amended.

(bb) "SERVICE" means:

(i) an Optionee's employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. An Optionee's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Optionee renders Service to the Participating Company Group or a change in the Participating Company for which the Optionee renders such Service, provided that there is no interruption or termination of the Optionee's Service. Furthermore, an Optionee's Service with the Participating Company Group shall not be deemed to have terminated if the Optionee takes any military leave, sick leave, or other bona fide leave of absence approved by the Company; provided, however, that if any such leave exceeds ninety (90) days, on the ninety-first (91st) day of such leave the Optionee's Service shall be deemed to have terminated unless the Optionee's

right to return to Service with the Participating Company Group is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, a leave of absence shall not be treated as Service for purposes of determining vesting under the Optionee's Option Agreement. The Optionee's Service shall be deemed to have terminated either upon an actual termination of Service or upon the corporation for which the Optionee performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Optionee's Service has terminated and the effective date of such termination.

(ii) Notwithstanding any other provision of this Section, as to a Distribution Option, (A) with respect to an Optionee who is an employee, consultant or director of the ESS Participating Company Group on the Distribution Date, Service shall also include Participant's ESS Service; and (B) with respect to a Participant who is an Employee, Consultant or Director of the Company on the Distribution Date, Service shall also include Participant's ESS Service which is performed prior to the Distribution Date and immediately prior to commencement of Service with the Participating Company Group.

(cc) "STOCK" means the Class A common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

(dd) "SUBSIDIARY CORPORATION" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

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(ee) "TEN PERCENT OWNER OPTIONEE" means an Optionee who, at the time an Option is granted to the Optionee, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company within the meaning of Section 422(b)(6) of the Code.

2.2 CONSTRUCTION. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

3. ADMINISTRATION.

3.1 ADMINISTRATION BY THE BOARD. The Plan shall be administered by the Board. All questions of interpretation of the Plan or of any Option shall be determined by the Board, and such determinations shall be final and binding upon all persons having an interest in the Plan or such Option.

3.2 AUTHORITY OF OFFICERS. Any Officer shall have the authority to act

on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, determination or election.

3.3 POWERS OF THE BOARD. In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Board shall have the full and final power and authority, in its discretion:

(a) to determine the persons to whom, and the time or times at which, Options shall be granted and the number of shares of Stock to be subject to each Option;

(b) to determine the Fair Market Value of shares of Stock or other property;

(c) to determine the terms, conditions and restrictions applicable to each Option (which need not be identical) and any shares acquired upon the exercise thereof, including, without limitation, (i) the exercise price of the Option, (ii) the method of payment for shares purchased upon the exercise of the Option, (iii) the method for satisfaction of any tax withholding obligation arising in connection with the Option or such shares, including by the withholding or delivery of shares of stock, (iv) the timing, terms and conditions of the exercisability of the Option or the vesting of any shares acquired upon the exercise thereof, (v) the time of the expiration of the Option, (vi) the effect of the Optionee's termination of Service with the Participating Company Group on any of the foregoing, and (vii) all other terms, conditions and restrictions applicable to the Option or such shares not inconsistent with the terms of the Plan;

(d) to approve one or more forms of Option Agreement;

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(e) to amend, modify, extend, cancel or renew any Option or to waive any restrictions or conditions applicable to any Option or any shares acquired upon the exercise thereof;

(f) to accelerate, continue, extend or defer the exercisability of any Option or the vesting of any shares acquired upon the exercise thereof, including with respect to the period following an Optionee's termination of Service with the Participating Company Group;

(g) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt supplements to, or alternative versions of, the Plan, including, without limitation, as the Board deems necessary or desirable to comply with the laws of, or to accommodate the tax policy or custom of, foreign jurisdictions whose citizens may be granted Options; and

(h) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Option Agreement and to make all other determinations and take such other actions with respect to the Plan or any Option as the Board may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law.

3.4 ADMINISTRATION WITH RESPECT TO INSIDERS. With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.5 INDEMNIFICATION. In addition to such other rights of indemnification as they may have as members of the Board or officers or employees of the Participating Company Group, members of the Board and any officers or employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. SHARES SUBJECT TO PLAN.

4.1 MAXIMUM NUMBER OF SHARES ISSUABLE. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be eight million nine hundred thirty nine thousand one hundred forty nine (8,939,149) and shall consist of authorized but unissued or reacquired shares of Stock or any

combination thereof. If an outstanding Option for any reason expires or is terminated or canceled or if shares of Stock are acquired upon the exercise of an Option subject to a Company repurchase option and are repurchased by the Company, the shares of Stock allocable to the unexercised portion of such Option or such repurchased shares of Stock shall not be available for future grant or

issuance under the Plan. Notwithstanding the foregoing, at any such time as the offer and sale of securities pursuant to the Plan is subject to compliance with Section 260.140.45 of Title 10 of the California Code of Regulations ("SECTION 260.140.45"), the total number of shares of Stock issuable upon the exercise of all outstanding Options (together with options outstanding under any other stock option plan of the Company) and the total number of shares provided for under any stock bonus or similar plan of the Company shall not exceed thirty percent (30%) (or such other higher percentage limitation as may be approved by the shareholders of the Company pursuant to Section 260.140.45) of the then outstanding shares of the Company as calculated in accordance with the conditions and exclusions of Section 260.140.45.

4.2 ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, appropriate adjustments shall be made in the number and class of shares subject to the Plan and to any outstanding Options, and in the exercise price per share of any outstanding Options. If a majority of the shares which are of the same class as the shares that are subject to outstanding Options are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event, as defined in Section 8.1) shares of another corporation (the "NEW SHARES"), the Board may unilaterally amend the outstanding Options to provide that such Options are exercisable for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise price per share of, the outstanding Options shall be adjusted in a fair and equitable manner as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, and in no event may the exercise price of any Option be decreased to an amount less than the par value, if any, of the stock subject to the Option. The adjustments determined by the Board pursuant to this Section 4.2 shall be final, binding and conclusive.

5. ELIGIBILITY AND OPTION LIMITATIONS.

5.1 PERSONS ELIGIBLE FOR OPTIONS.

(a) GENERAL. Options may be granted only to Employees, Consultants, and Directors. For purposes of the foregoing sentence, "Employees," "Consultants" and "Directors" shall include prospective Employees, prospective Consultants and prospective Directors to whom Options are granted in connection with written offers of an employment or other service relationship with the Participating Company Group. Eligible persons may be granted more than one (1) Option. However, eligibility in accordance with this Section shall not entitle any person to be granted an Option, or, having been granted an Option, to be granted an additional Option.

(b) DISTRIBUTION OPTIONS. Eligibility for the grant of Distribution Options shall be as determined between ESS and the Company, but in general shall include all of

those holders of options to acquire shares of the common stock of ESS as of the Distribution Date except for persons with respect to whom a Form S-8 is not available to register the offer or sale of securities pursuant to such grant, unless the Company determines both (i) that the offer and sale of the Company's securities as a result of the granting of a Distribution Option shall be (A) registered in another manner under the Securities Act, or (B) does not require registration under the Securities Act in order to comply with the requirements of the Securities Act, if applicable, and (ii) that such grant of a Distribution Option complies with the securities laws of all other relevant jurisdictions.

5.2 SECTION 162(m) GRANT LIMIT. Subject to adjustment as provided in Section 4.2, at any such time as the Company is a "publicly held corporation" within the meaning of Section 162(m), no Employee or prospective Employee shall be granted one or more Options within any fiscal year of the Company which in the aggregate are for the purchase of more than _____ (_____) shares (the "SECTION 162(m) GRANT LIMIT"). An Option which is canceled in the same fiscal year of the Company in which it was granted shall continue to be counted against the Section 162(m) Grant Limit for such period.

6. TERMS AND CONDITIONS OF OPTIONS.

Options shall be evidenced by Option Agreements specifying the number of shares of Stock covered thereby, in such form as the Board shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Option Agreement. Option Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

6.1 EXERCISE PRICE. The exercise price for each Option shall be established in the discretion of the Board; provided, however, that (a) the exercise price per share for a Nonstatutory Stock Option shall be not less than eighty-five percent (85%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option, and (b) no Option granted to a Ten Percent Owner Optionee shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Code.

6.2 EXERCISABILITY AND TERM OF OPTIONS. Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Board and set forth in the Option Agreement evidencing such Option; provided,

however, that (a) no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Option granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service with a Participating Company, and (c) with the exception of an Option granted to an Officer, a Director or a Consultant, no Option shall become exercisable at a rate less than twenty percent (20%) per year over a period of five (5) years from the effective date of grant of such Option, subject to the

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Optionee's continued Service. Subject to the foregoing, unless otherwise specified by the Board in the grant of an Option, any Option granted hereunder shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

6.3 PAYMENT OF EXERCISE PRICE.

(a) FORMS OF CONSIDERATION AUTHORIZED. Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Optionee having a Fair Market Value not less than the exercise price, (iii) by delivery of a properly executed notice together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a "CASHLESS EXERCISE"), (iv) provided that the Optionee is an Employee (unless otherwise not prohibited by law, including, without limitation, any regulation promulgated by the Board of Governors of the Federal Reserve System) and in the Company's sole discretion at the time the Option is exercised, by delivery of the Optionee's promissory note in a form approved by the Company for the aggregate exercise price, provided that, if the Company is incorporated in the State of Delaware, the Optionee shall pay in cash that portion of the aggregate exercise price not less than the par value of the shares being acquired, (v) by such other consideration as may be approved by the Board from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Board may at any time or from time to time, by approval of or by amendment to the standard forms of Option Agreement described in Section 7, or by other means, grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) LIMITATIONS ON FORMS OF CONSIDERATION.

(i) TENDER OF STOCK. Notwithstanding the foregoing, an

Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock. Unless otherwise provided by the Board, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Optionee for more than six (6) months (and not used for another Option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

(ii) CASHLESS EXERCISE. The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise.

(iii) PAYMENT BY PROMISSORY NOTE. No promissory note shall be permitted if the exercise of an Option using a promissory note would be a violation of any

law. Any permitted promissory note shall be on such terms as the Board shall determine. The Board shall have the authority to permit or require the Optionee to secure any promissory note used to exercise an Option with the shares of Stock acquired upon the exercise of the Option or with other collateral acceptable to the Company. Unless otherwise provided by the Board, if the Company at any time is subject to the regulations promulgated by the Board of Governors of the Federal Reserve System or any other governmental entity affecting the extension of credit in connection with the Company's securities, any promissory note shall comply with such applicable regulations, and the Optionee shall pay the unpaid principal and accrued interest, if any, to the extent necessary to comply with such applicable regulations.

6.4 TAX WITHHOLDING. The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable upon the exercise of an Option, or to accept from the Optionee the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to such Option or the shares acquired upon the exercise thereof. Alternatively or in addition, in its discretion, the Company shall have the right to require the Optionee, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise, to make adequate provision for any such tax withholding obligations of the Participating Company Group arising in connection with the Option or the shares acquired upon the exercise thereof. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates. The Company shall have no obligation to

deliver shares of Stock or to release shares of Stock from an escrow established pursuant to the Option Agreement until the Participating Company Group's tax withholding obligations have been satisfied by the Optionee.

6.5 REPURCHASE RIGHTS. Shares issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Board in its discretion at the time the Option is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Optionee shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

6.6 EFFECT OF TERMINATION OF SERVICE.

(a) OPTION EXERCISABILITY. Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Board in the grant of an Option and set forth in the Option Agreement, an Option shall be exercisable after an Optionee's termination of Service only during the applicable time period determined in accordance with this Section 6.6 and thereafter shall terminate:

(i) DISABILITY. If the Optionee's Service terminates because of the Disability of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee (or the

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Optionee's guardian or legal representative) at any time prior to the expiration of twelve (12) months (or such longer period of time as determined by the Board, in its discretion) after the date on which the Optionee's Service terminated, but in any event no later than the date of expiration of the Option's term as set forth in the Option Agreement evidencing such Option (the "OPTION EXPIRATION DATE").

(ii) DEATH. If the Optionee's Service terminates because of the death of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee's legal representative or other person who acquired the right to exercise the Option by reason of the Optionee's death at any time prior to the expiration of twelve (12) months (or such longer period of time as determined by the Board, in its discretion) after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date. The Optionee's Service shall be deemed to have terminated on account of death if the Optionee dies within three (3) months (or such longer period of time as

determined by the Board, in its discretion) after the Optionee's termination of Service.

(iii) OTHER TERMINATION OF SERVICE. If the Optionee's Service terminates for any reason, except Disability or death, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee's Service terminated, may be exercised by the Optionee at any time prior to the expiration of three (3) months (or such longer period of time as determined by the Board, in its discretion) after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date.

(b) EXTENSION IF EXERCISE PREVENTED BY LAW. Notwithstanding the foregoing, if the exercise of an Option within the applicable time periods set forth in Section 6.6(a) is prevented by the provisions of Section 10 below, the Option shall remain exercisable until three (3) months (or such longer period of time as determined by the Board, in its discretion) after the date the Optionee is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

(c) EXTENSION IF OPTIONEE SUBJECT TO SECTION 16(b). Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 6.6(a) of shares acquired upon the exercise of the Option would subject the Optionee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Optionee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Optionee's termination of Service, or (iii) the Option Expiration Date.

6.7 TRANSFERABILITY OF OPTIONS. During the lifetime of the Optionee, an Option shall be exercisable only by the Optionee or the Optionee's guardian or legal representative. No Option shall be assignable or transferable by the Optionee, except by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Board, in its discretion, and set forth in the Option Agreement evidencing such Option, a Nonstatutory Stock Option shall be assignable or transferable subject to the applicable limitations, if any, described in Section 260.140.41 of Title 10 of the California Code of

Regulations and the General Instructions to Form S-8 Registration Statement under the Securities Act.

7. STANDARD FORMS OF OPTION AGREEMENT.

7.1 OPTION AGREEMENT. Unless otherwise provided by the Board at the

time the Option is granted, an Option shall comply with and be subject to the terms and conditions set forth in the form of Option Agreement approved by the Board concurrently with its adoption of the Plan and as amended from time to time.

7.2 AUTHORITY TO VARY TERMS. The Board shall have the authority from time to time to vary the terms of any standard form of Option Agreement described in this Section 7 either in connection with the grant or amendment of an individual Option or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Option Agreement are not inconsistent with the terms of the Plan.

8. CHANGE IN CONTROL.

8.1 DEFINITIONS.

(a) An "OWNERSHIP CHANGE EVENT" shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the shareholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

(b) A "CHANGE IN CONTROL" shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, a "TRANSACTION") wherein the shareholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of a Transaction described in Section 8.1(a)(iii), the corporation or other business entity to which the assets of the Company were transferred (the "TRANSFeree"), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. Notwithstanding the preceding sentence, a Change in Control shall not include the Distribution or Transaction in which the voting stock of an entity in the Participating Company Group is distributed to the shareholders of a parent corporation as defined by Section 424(e) of the Code, of such entity. The Board shall have the right to determine whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

8.2 EFFECT OF CHANGE IN CONTROL ON OPTIONS. In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the "ACQUIRING CORPORATION"), may, without the consent of the Optionee, either assume the Company's rights and obligations under outstanding Options or substitute for outstanding Options substantially equivalent options for the Acquiring Corporation's stock. Any Options which are neither assumed or substituted for by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control. Notwithstanding the foregoing, shares acquired upon exercise of an Option prior to the Change in Control and any consideration received pursuant to the Change in Control with respect to such shares shall continue to be subject to all applicable provisions of the Option Agreement evidencing such Option except as otherwise provided in such Option Agreement. Furthermore, notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Options immediately prior to an Ownership Change Event described in Section 8.1(a)(i) constituting a Change in Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of Section 1504(a) of the Code without regard to the provisions of Section 1504(b) of the Code, the outstanding Options shall not terminate unless the Board otherwise provides in its discretion.

9. PROVISION OF INFORMATION.

At least annually, copies of the Company's balance sheet and income statement for the just completed fiscal year shall be made available to each Optionee and purchaser of shares of Stock upon the exercise of an Option. The Company shall not be required to provide such information to key employees whose duties in connection with the Company assure them access to equivalent information.

10. COMPLIANCE WITH SECURITIES LAW.

The grant of Options and the issuance of shares of Stock upon exercise of Options shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities. Options may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Option may be exercised unless (a) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares issuable upon exercise of the Option or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body

having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of any Option, the Company may require the Optionee to satisfy any qualifications that may be necessary or appropriate, to evidence

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compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

11. TERMINATION OR AMENDMENT OF PLAN.

The Board may terminate or amend the Plan at any time. However, subject to changes in applicable law, regulations or rules that would permit otherwise, without the approval of the Company's shareholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.2), (b) no other amendment of the Plan that would require approval of the Company's shareholders under any applicable law, regulation or rule. No termination or amendment of the Plan shall affect any then outstanding Option unless expressly provided by the Board. In any event, no termination or amendment of the Plan may adversely affect any then outstanding Option without the consent of the Optionee.

12. SHAREHOLDER APPROVAL.

The Plan or any increase in the maximum aggregate number of shares of Stock issuable thereunder as provided in Section 4.1 (the "AUTHORIZED SHARES") shall be approved by the shareholders of the Company within twelve (12) months of the date of adoption thereof by the Board. Options granted prior to shareholder approval of the Plan or in excess of the Authorized Shares previously approved by the shareholders shall become exercisable no earlier than the date of shareholder approval of the Plan or such increase in the Authorized Shares, as the case may be.

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PLAN HISTORY

_____	, 2001	Board adopts Plan, with an initial reserve of 8,939,149 shares.
_____	, 2001	Shareholders approve Plan, with an initial reserve of 8,939,149 shares.

VIALTA, INC.
2001 EMPLOYEE STOCK PURCHASE PLAN

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

1.1 ESTABLISHMENT. The Vialta, Inc. 2001 Employee Stock Purchase Plan (the "PLAN") is hereby established effective as of July 23, 2001, subject to approval by the Company's stockholders.

1.2 PURPOSE. The purpose of the Plan is to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward Eligible Employees of the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan provides such Eligible Employees with an opportunity to acquire a proprietary interest in the Company through the purchase of Stock. The Company intends that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code (including any amendments or replacements of such section), and the Plan shall be so construed.

1.3 TERM OF PLAN. The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued. However, all shares shall be issued, if at all, within ten (10) years from the earlier of the date the Plan is adopted by the Board or the date the Plan is duly approved by the shareholders of the Company.

2. DEFINITIONS AND CONSTRUCTION.

2.1 DEFINITIONS. Any term not expressly defined in the Plan but defined for purposes of Section 423 of the Code shall have the same definition herein. Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "BOARD" means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, "Board" also means such Committee(s).

(b) "CODE" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(c) "COMMITTEE" means a committee of the Board duly appointed to administer the Plan and having such powers as specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

(d) "COMPANY" means Vialta, Inc., a Delaware corporation, or any successor corporation thereto.

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(e) "COMPENSATION" means, with respect to any Offering Period, base salary and commissions, including any base salary or commissions deferred under any program or plan established by a Participating Company, including, without limitation, any plan described in Section 401(k) or Section 125 of the Code. Compensation shall be limited to amounts actually payable in cash directly to the Participant or deferred by the Participant during the Offering Period. Compensation shall not include overtime, bonuses, annual awards, profit sharing, other incentive payments, shift premiums, long-term disability, workers' compensation, moving allowances, payments pursuant to a severance agreement, termination pay, relocation payments, sign-on bonuses, expense reimbursements, the cost of employee benefits paid by a Participating Company, tuition reimbursements, imputed income arising under any benefit program, contributions made by a Participating Company under any employee benefit plan, income directly or indirectly received pursuant to the Plan or any other stock purchase or stock option plan, or any other compensation not included in base salary and commissions.

(f) "ELIGIBLE EMPLOYEE" means an Employee who meets the requirements set forth in Section 5 for eligibility to participate in the Plan.

(g) "EMPLOYEE" means a person treated as an employee of a Participating Company for purposes of Section 423 of the Code. A Participant shall be deemed to have ceased to be an Employee either upon an actual termination of employment or upon the corporation employing the Participant ceasing to be a Participating Company. For purposes of the Plan, an individual shall not be deemed to have ceased to be an Employee while on any military leave, sick leave, or other bona fide leave of absence approved by the Company of ninety (90) days or less. If an individual's leave of absence exceeds ninety (90) days, the individual shall be deemed to have ceased to be an Employee on the ninety-first (91st) day of such leave unless the individual's right to reemployment with the Participating Company Group is guaranteed either by statute or by contract.

(h) "FAIR MARKET VALUE" means, as of any date:

(i) If the Stock is then listed on a national or regional securities exchange or market system or is regularly quoted by a recognized securities dealer, the closing sale price of a share of Stock (or the mean of the closing bid and asked prices if the Stock is so quoted instead) as quoted on the Nasdaq National Market, the Nasdaq SmallCap Market or such other national or regional securities exchange or market system constituting the primary market for the Stock, or by such recognized securities dealer, as reported in The Wall Street Journal or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such

securities exchange or market system or has been quoted by such securities dealer, the date on which the Fair Market Value is established shall be the last day on which the Stock was so traded or quoted prior to the relevant date, or such other appropriate day as determined by the Board, in its discretion.

(ii) If, on the relevant date, the Stock is not then listed on a national or regional securities exchange or market system or regularly quoted by a recognized securities dealer, the Fair Market Value of a share of Stock shall be as determined in good faith by the Board.

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(i) "OFFERING" means an offering of Stock as provided in Section 6.1.

(j) "OFFERING DATE" means, for any Offering, the first day of the Offering Period.

(k) "OFFERING PERIOD" means a period established in accordance with Section 6.

(l) "PARENT CORPORATION" means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(m) "PARTICIPANT" means an Eligible Employee who has become a participant in an Offering Period in accordance with Section 7 and remains a participant in accordance with the Plan.

(n) "PARTICIPATING COMPANY" means the Company or any Parent Corporation or Subsidiary Corporation designated by the Board as a corporation the Employees of which may, if Eligible Employees, participate in the Plan. The Board shall have the sole and absolute discretion to determine from time to time which Parent Corporations or Subsidiary Corporations shall be Participating Companies.

(o) "PARTICIPATING COMPANY GROUP" means, at any point in time, the Company and all other corporations collectively which are then Participating Companies.

(p) "PURCHASE DATE" means, for any Purchase Period, the last day of such period.

(q) "PURCHASE PERIOD" means a period established in accordance with Section 6.2.

(r) "PURCHASE PRICE" means the price at which a share of Stock may be purchased under the Plan, as determined in accordance with Section 9.

(s) "PURCHASE RIGHT" means an option granted to a Participant pursuant to the Plan to purchase such shares of Stock as provided in Section 8, which the Participant may or may not exercise during the Offering Period in which such option is outstanding. Such option arises from the right of a Participant to withdraw any accumulated payroll deductions of the Participant not previously applied to the purchase of Stock under the Plan and to terminate participation in the Plan at any time during an Offering Period.

(t) "STOCK" means the Class A common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

(u) "SUBSCRIPTION AGREEMENT" means a written agreement in such form as specified by the Company, stating an Employee's election to participate in the Plan and authorizing payroll deductions under the Plan from the Employee's Compensation.

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(v) "SUBSCRIPTION DATE" means the last business day prior to the Offering Date of an Offering Period or such other date as the Company shall establish.

(w) "SUBSIDIARY CORPORATION" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

2.2 CONSTRUCTION. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

3. ADMINISTRATION.

3.1 ADMINISTRATION BY THE BOARD. The Plan shall be administered by the Board. All questions of interpretation of the Plan, of any form of agreement or other document employed by the Company in the administration of the Plan, or of any Purchase Right shall be determined by the Board, and such determinations shall be final, binding and conclusive upon all persons having an interest in the Plan or the Purchase Right, unless fraudulent or made in bad faith. Subject to the provisions of the Plan, the Board shall determine all of the relevant terms and conditions of Purchase Rights; provided, however, that all Participants granted Purchase Rights pursuant to an Offering shall have the same rights and privileges within the meaning of Section 423(b)(5) of the Code. Any and all actions, decisions and determinations taken or made by the Board in the exercise of its discretion pursuant to the Plan or any agreement thereunder (other than determining questions of interpretation pursuant to the second

sentence of this Section 3.1) shall be final, binding and conclusive upon all persons having an interest therein. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

3.2 AUTHORITY OF OFFICERS. Any officer of the Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election that is the responsibility of or that is allocated to the Company herein, provided that the officer has apparent authority with respect to such matter, right, obligation, determination or election.

3.3 POLICIES AND PROCEDURES ESTABLISHED BY THE COMPANY. The Company may, from time to time, consistent with the Plan and the requirements of Section 423 of the Code, establish, change or terminate such rules, guidelines, policies, procedures, limitations, or adjustments as deemed advisable by the Company, in its discretion, for the proper administration of the Plan, including, without limitation, (a) a minimum payroll deduction amount required for participation in an Offering, (b) a limitation on the frequency or number of changes permitted in the rate of payroll deduction during an Offering, (c) an exchange ratio applicable to amounts withheld in a currency other than United States dollars, (d) a payroll deduction greater than or less than the amount designated by a Participant in order to adjust for the Company's delay or mistake in processing a Subscription Agreement or in otherwise effecting a Participant's election under the Plan or as advisable to comply with the requirements of Section 423 of the Code, and (e) determination of the date and manner by which the Fair Market Value of a share of Stock is

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determined for purposes of administration of the Plan. All such actions by the Company shall be taken consistent with the requirement under Section 423(b)(5) of the Code that all Participants granted Purchase Rights pursuant to an Offering shall have the same rights and privileges within the meaning of such section.

3.4 INDEMNIFICATION. In addition to such other rights of indemnification as they may have as members of the Board or officers or employees of the Participating Company Group, members of the Board and any officers or employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in

relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. SHARES SUBJECT TO PLAN.

4.1 MAXIMUM NUMBER OF SHARES ISSUABLE. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be one million (1,000,000), cumulatively increased on the first January 1 following the date of the Plan's first Offering Period (as set forth in Section 6) and each January 1 thereafter until the Plan is terminated (the "Annual Increase") by the lesser of (a) 1% of the shares of issued and outstanding Stock on the immediately preceding December 31, (b) 100,000 shares, or (c) such lesser number of shares determined by the Board, and shall consist of authorized but unissued or reacquired shares of Stock, or any combination thereof. If an outstanding Purchase Right for any reason expires or is terminated or canceled, the shares of Stock allocable to the unexercised portion of that Purchase Right shall again be available for issuance under the Plan. Notwithstanding the foregoing, at any such time as the offer and sale of securities pursuant to the Plan is subject to compliance with Section 260.140.45 of Title 10 of the California Code of Regulations ("SECTION 260.140.45"), the total number of shares of Stock issuable upon the exercise of all outstanding Purchase Rights (together with options outstanding under any other stock option plan of the Company) and the total number of shares provided for under any stock bonus or similar plan of the Company shall not exceed thirty percent (30%) (or such other higher percentage limitation as may be approved by the shareholders of the Company pursuant to Section 260.140.45) of the then outstanding shares of the Company as calculated in accordance with the conditions and exclusions of Section 260.140.45.

4.2 ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, or in the event of any merger (including a merger effected for the purpose of changing the Company's domicile), sale of assets or other

reorganization in which the Company is a party, appropriate adjustments shall be made in the number and class of shares subject to the Plan, the Annual Increase, the limit on the shares which may be purchased by any Participant on a Purchase Date (as described in Section 8.1) and each Purchase Right, and in the Purchase Price. If a majority of the shares of the same class as the shares subject to outstanding Purchase Rights are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another

corporation (the "NEW SHARES"), the Board may unilaterally amend the outstanding Purchase Rights to provide that such Purchase Rights are exercisable for New Shares. In the event of any such amendment, the number of shares subject to, and the Purchase Price of, the outstanding Purchase Rights shall be adjusted in a fair and equitable manner, as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, and in no event may the Purchase Price be decreased to an amount less than the par value, if any, of the stock subject to the Purchase Right. The adjustments determined by the Board pursuant to this Section 4.2 shall be final, binding and conclusive.

5. ELIGIBILITY.

5.1 EMPLOYEES ELIGIBLE TO PARTICIPATE. Each Employee of a Participating Company is eligible to participate in the Plan and shall be deemed an Eligible Employee, except any Employee who is either: (a) customarily employed by the Participating Company Group for twenty (20) hours or less per week or (b) customarily employed by the Participating Company Group for not more than five (5) months in any calendar year.

5.2 EXCLUSION OF CERTAIN SHAREHOLDERS. Notwithstanding any provision of the Plan to the contrary, no Employee shall be treated as an Eligible Employee and granted a Purchase Right under the Plan if, immediately after such grant, the Employee would own or hold options to purchase stock of the Company or of any Parent Corporation or Subsidiary Corporation possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of such corporation, as determined in accordance with Section 423(b)(3) of the Code. For purposes of this Section 5.2, the attribution rules of Section 424(d) of the Code shall apply in determining the stock ownership of such Employee.

5.3 DETERMINATION BY COMPANY. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee or an Eligible Employee and the effective date of such individual's attainment or termination of such status, as the case may be. For purposes of an individual's participation in or other rights, if any, under the Plan as of the time of the Company's determination, all such determinations by the Company shall be final, binding and conclusive, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination.

6. OFFERINGS.

6.1 OFFERING PERIODS. The Plan shall be implemented by sequential Offerings (an "OFFERING PERIOD"). The Board shall determine the dates on which Offering Periods will commence and the duration of each Offering Period, subject to Section 6.3 below. Unless

otherwise provided by the Board with respect to a particular Offering Period, each Offering Period will have a duration of approximately six (6) months.

6.2 PURCHASE PERIODS. If the Board so determines, in its discretion, each Offering Period may consist of two (2) or more consecutive Purchase Periods having such duration as the Board shall specify, and the last day of each such Purchase Period shall be a Purchase Date.

6.3 DISCRETION TO VARY DURATION. The Board may establish a different duration for one or more Offering Periods or Purchase Periods or different commencing or ending dates for such periods; provided, however, that no Offering Period may have a duration exceeding twenty-seven (27) months. If the first or last day of an Offering Period or a Purchase Period is not a day on which the national securities exchanges or Nasdaq Stock Market are open for trading, the Company shall specify the trading day that will be deemed the first or last day, as the case may be, of the period.

7. PARTICIPATION IN THE PLAN.

7.1 INITIAL PARTICIPATION. An Eligible Employee may become a Participant in an Offering Period by delivering a properly completed Subscription Agreement to the office designated by the Company not later than the close of business for such office on the Subscription Date established by the Company for that Offering Period. An Eligible Employee who does not deliver a properly completed Subscription Agreement to the Company's designated office on or before the Subscription Date for an Offering Period shall not participate in the Plan for that Offering Period or for any subsequent Offering Period unless the Eligible Employee subsequently delivers a properly completed Subscription Agreement to the appropriate office of the Company on or before the Subscription Date for such subsequent Offering Period. An Employee who becomes an Eligible Employee after the Offering Date of an Offering Period shall not be eligible to participate in that Offering Period but may participate in any subsequent Offering Period provided the Employee is still an Eligible Employee as of the Offering Date of such subsequent Offering Period.

7.2 CONTINUED PARTICIPATION. A Participant shall automatically participate in the next Offering Period commencing immediately after the final Purchase Date of each Offering Period in which the Participant participates provided that the Participant remains an Eligible Employee on the Offering Date of the new Offering Period and has not either (a) withdrawn from the Plan pursuant to Section 12.1 or (b) terminated employment as provided in Section 13. A Participant who may automatically participate in a subsequent Offering Period, as provided in this Section, is not required to deliver any additional Subscription Agreement for the subsequent Offering Period in order to continue participation in the Plan. However, a Participant may deliver a new Subscription Agreement for a subsequent Offering Period in accordance with the procedures set forth in Section 7.1 if the Participant desires to change any of the elections contained in the Participant's then effective Subscription Agreement.

8. RIGHT TO PURCHASE SHARES.

8.1 GRANT OF PURCHASE RIGHT. Except as set forth below, on the Offering Date of each Offering Period, each Participant in that Offering Period shall be granted automatically a Purchase Right consisting of an option to purchase the lesser of (a) that number of whole shares of Stock determined by dividing Twenty-Five Thousand Dollars (\$25,000) by the Fair Market Value of a share of Stock on such Offering Date or (b) five hundred (500) shares of Stock. No Purchase Right shall be granted on an Offering Date to any person who is not, on such Offering Date, an Eligible Employee.

8.2 PRO RATA ADJUSTMENT OF PURCHASE RIGHT. Notwithstanding the provisions of Section 8.1, if the Board establishes an Offering Period of any duration other than six months, then (a) the dollar amount in Section 8.1 shall be determined by multiplying \$4,166.66 by the number of months (rounded to the nearest whole month) in the Offering Period and rounding to the nearest whole dollar, and (b) the share amount in Section 8.1 shall be determined by multiplying 83.33 shares by the number of months (rounded to the nearest whole month) in the Offering Period and rounding to the nearest whole share.

8.3 CALENDAR YEAR PURCHASE LIMITATION. Notwithstanding any provision of the Plan to the contrary, no Participant shall be granted a Purchase Right which permits his or her right to purchase shares of Stock under the Plan to accrue at a rate which, when aggregated with such Participant's rights to purchase shares under all other employee stock purchase plans of a Participating Company intended to meet the requirements of Section 423 of the Code, exceeds Twenty-Five Thousand Dollars (\$25,000) in Fair Market Value (or such other limit, if any, as may be imposed by the Code) for each calendar year in which such Purchase Right is outstanding at any time. For purposes of the preceding sentence, the Fair Market Value of shares purchased during a given Offering Period shall be determined as of the Offering Date for such Offering Period. The limitation described in this Section shall be applied in conformance with applicable regulations under Section 423(b)(8) of the Code.

9. PURCHASE PRICE.

The Purchase Price at which each share of Stock may be acquired in an Offering Period upon the exercise of all or any portion of a Purchase Right shall be established by the Board; provided, however, that the Purchase Price on each Purchase Date shall not be less than eighty-five percent (85%) of the lesser of (a) the Fair Market Value of a share of Stock on the Offering Date of the Offering Period or (b) the Fair Market Value of a share of Stock on the Purchase Date. Unless otherwise provided by the Board prior to the commencement of an Offering Period, the Purchase Price on each Purchase Date during that Offering Period shall be eighty-five percent (85%) of the lesser of (a) the Fair Market Value of a share of Stock on the Offering Date of the Offering Period, or

(b) the Fair Market Value of a share of Stock on the Purchase Date.

10. ACCUMULATION OF PURCHASE PRICE THROUGH PAYROLL DEDUCTION.

Shares of Stock acquired pursuant to the exercise of all or any portion of a Purchase Right may be paid for only by means of payroll deductions from the Participant's

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Compensation accumulated during the Offering Period for which such Purchase Right was granted, subject to the following:

10.1 AMOUNT OF PAYROLL DEDUCTIONS. Except as otherwise provided herein, the amount to be deducted under the Plan from a Participant's Compensation on each payday during an Offering Period shall be determined by the Participant's Subscription Agreement. The Subscription Agreement shall set forth the percentage of the Participant's Compensation to be deducted on each payday during an Offering Period in whole percentages of not less than one percent (1%) (except as a result of an election pursuant to Section 10.3 to stop payroll deductions effective following the first payday during an Offering) or more than ten percent (10%). The Board may change the foregoing limits on payroll deductions effective as of any Offering Date.

10.2 COMMENCEMENT OF PAYROLL DEDUCTIONS. Payroll deductions shall commence on the first payday following the Offering Date and shall continue to the end of the Offering Period unless sooner altered or terminated as provided herein.

10.3 ELECTION TO CHANGE OR STOP PAYROLL DEDUCTIONS. During an Offering Period, a Participant may elect to increase or decrease the rate of or to stop deductions from his or her Compensation by delivering to the Company's designated office an amended Subscription Agreement authorizing such change on or before the Change Notice Date, as defined below. A Participant who elects, effective following the first payday of an Offering Period, to decrease the rate of his or her payroll deductions to zero percent (0%) shall nevertheless remain a Participant in the current Offering Period unless such Participant withdraws from the Plan as provided in Section 12.1. The "CHANGE NOTICE DATE" shall be the day immediately prior to the beginning of the first pay period for which such election is to be effective, unless a different date is established by the Company and announced to the Participants.

10.4 ADMINISTRATIVE SUSPENSION OF PAYROLL DEDUCTIONS. The Company may, in its sole discretion, suspend a Participant's payroll deductions under the Plan as the Company deems advisable to avoid accumulating payroll deductions in excess of the amount that could reasonably be anticipated to purchase the maximum number of shares of Stock permitted (a) under the Participant's Purchase Right or (b) during a calendar year under the limit set forth in Section 8.3.

Payroll deductions shall be resumed at the rate specified in the Participant's then effective Subscription Agreement at the beginning, respectively, of (a) the next Offering Period the first Purchase Date of which falls in the following calendar year, provided that the individual is a Participant in such Offering Period or (b) the next Purchase Period the Purchase Date of which falls in the following calendar year, unless the Participant has either withdrawn from the Plan as provided in Section 12.1 or has ceased to be an Eligible Employee.

10.5 PARTICIPANT ACCOUNTS. Individual bookkeeping accounts shall be maintained for each Participant. All payroll deductions from a Participant's Compensation shall be credited to such Participant's Plan account and shall be deposited with the general funds of the Company. All payroll deductions received or held by the Company may be used by the Company for any corporate purpose.

10.6 NO INTEREST PAID. Interest shall not be paid on sums deducted from a Participant's Compensation pursuant to the Plan.

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10.7 VOLUNTARY WITHDRAWAL FROM PLAN ACCOUNT. A Participant may withdraw all or any portion of the payroll deductions credited to his or her Plan account and not previously applied toward the purchase of Stock by delivering to the Company's designated office a written notice on a form provided by the Company for such purpose. A Participant who withdraws the entire remaining balance credited to his or her Plan account shall be deemed to have withdrawn from the Plan in accordance with Section 12.1. Amounts withdrawn shall be returned to the Participant as soon as practicable after the Company's receipt of the notice of withdrawal and may not be applied to the purchase of shares in any Offering under the Plan. The Company may from time to time establish or change limitations on the frequency of withdrawals permitted under this Section, establish a minimum dollar amount that must be retained in the Participant's Plan account, or terminate the withdrawal right provided by this Section.

11. PURCHASE OF SHARES.

11.1 EXERCISE OF PURCHASE RIGHT. On each Purchase Date of an Offering Period, each Participant who has not withdrawn from the Plan and whose participation in the Offering has not otherwise terminated before such Purchase Date shall automatically acquire pursuant to the exercise of the Participant's Purchase Right the number of whole shares of Stock determined by dividing (a) the total amount of the Participant's payroll deductions accumulated in the Participant's Plan account during the Offering Period and not previously applied toward the purchase of Stock by (b) the Purchase Price. However, in no event shall the number of shares purchased by the Participant during an Offering Period exceed the number of shares subject to the Participant's Purchase Right. No shares of Stock shall be purchased on a Purchase Date on behalf of a Participant whose participation in the Offering or the Plan has terminated

before such Purchase Date.

11.2 PRO RATA ALLOCATION OF SHARES. If the number of shares of Stock which might be purchased by all Participants in the Plan on a Purchase Date exceeds the number of shares of Stock available in the Plan as provided in Section 4.1, the Company shall make a pro rata allocation of the remaining shares in as uniform a manner as practicable and as the Company determines to be equitable. Any fractional share resulting from such pro rata allocation to any Participant shall be disregarded.

11.3 DELIVERY OF CERTIFICATES. As soon as practicable after each Purchase Date, the Company shall arrange the delivery to each Participant of a certificate representing the shares acquired by the Participant on such Purchase Date; provided that the Company may deliver such shares to a broker designated by the Company that will hold such shares for the benefit of the Participant. Shares to be delivered to a Participant under the Plan shall be registered in the name of the Participant, or, if requested by the Participant, in the name of the Participant and his or her spouse, or, if applicable, in the names of the heirs of the Participant.

11.4 RETURN OF CASH BALANCE. Any cash balance remaining in a Participant's Plan account following any Purchase Date shall be refunded to the Participant as soon as practicable after such Purchase Date. However, if the cash balance to be returned to a Participant pursuant to the preceding sentence is less than the amount that would have been necessary to purchase an additional whole share of Stock on such Purchase Date, the Company may retain the

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cash balance in the Participant's Plan account to be applied toward the purchase of shares of Stock in the subsequent Purchase Period or Offering Period, as the case may be.

11.5 TAX WITHHOLDING. At the time a Participant's Purchase Right is exercised, in whole or in part, or at the time a Participant disposes of some or all of the shares of Stock he or she acquires under the Plan, the Participant shall make adequate provision for the federal, state, local and foreign tax withholding obligations, if any, of the Participating Company Group which arise upon exercise of the Purchase Right or upon such disposition of shares, respectively. The Participating Company Group may, but shall not be obligated to, withhold from the Participant's compensation the amount necessary to meet such withholding obligations.

11.6 EXPIRATION OF PURCHASE RIGHT. Any portion of a Participant's Purchase Right remaining unexercised after the end of the Offering Period to which the Purchase Right relates shall expire immediately upon the end of the Offering Period.

11.7 PROVISION OF REPORTS AND SHAREHOLDER INFORMATION TO PARTICIPANTS. Each Participant who has exercised all or part of his or her Purchase Right shall receive, as soon as practicable after the Purchase Date, a report of such Participant's Plan account setting forth the total payroll deductions accumulated prior to such exercise, the number of shares of Stock purchased, the Purchase Price for such shares, the date of purchase and the cash balance, if any, remaining immediately after such purchase that is to be refunded or retained in the Participant's Plan account pursuant to Section 11.4. The report required by this Section may be delivered in such form and by such means, including by electronic transmission, as the Company may determine. In addition, each Participant shall be provided information concerning the Company equivalent to that information provided generally to the Company's common shareholders. At least annually, copies of the Company's balance sheet and income statement for the just completed fiscal year shall be made available to each Participant. The Company shall not be required to provide such information to key employees whose duties in connection with the Company assure them access to equivalent information.

12. WITHDRAWAL FROM PLAN OR OFFERING.

12.1 VOLUNTARY WITHDRAWAL FROM THE PLAN. A Participant may withdraw from the Plan by signing and delivering to the Company's designated office a written notice of withdrawal on a form provided by the Company for this purpose. Such withdrawal may be elected at any time prior to the end of an Offering Period; provided, however, that if a Participant withdraws from the Plan after a Purchase Date, the withdrawal shall not affect shares of Stock acquired by the Participant on such Purchase Date. A Participant who voluntarily withdraws from the Plan is prohibited from resuming participation in the Plan in the same Offering from which he or she withdrew, but may participate in any subsequent Offering by again satisfying the requirements of Sections 5 and 7.1. The Company may impose, from time to time, a requirement that the notice of withdrawal from the Plan be on file with the Company's designated office for a reasonable period prior to the effectiveness of the Participant's withdrawal.

12.2 RETURN OF PAYROLL DEDUCTIONS. Upon a Participant's voluntary withdrawal from the Plan pursuant to Section 12.1, the Participant's accumulated payroll deductions which have not been applied toward the purchase of shares of Stock shall be refunded

to the Participant as soon as practicable after the withdrawal, without the payment of any interest, and the Participant's interest in the Plan or the Offering, as applicable, shall terminate. Such accumulated payroll deductions to be refunded in accordance with this Section may not be applied to any other Offering under the Plan.

13. TERMINATION OF EMPLOYMENT OR ELIGIBILITY.

Upon a Participant's ceasing, prior to a Purchase Date, to be an Employee of the Participating Company Group for any reason, including retirement, disability or death, or upon the failure of a Participant to remain an Eligible Employee, the Participant's participation in the Plan shall terminate immediately. In such event, the Participant's accumulated payroll deductions which have not been applied toward the purchase of shares shall, as soon as practicable, be returned to the Participant or, in the case of the Participant's death, to the Participant's beneficiary designated in accordance with Section 20, if any, or legal representative, and all of the Participant's rights under the Plan shall terminate. Interest shall not be paid on sums returned pursuant to this Section 13. A Participant whose participation has been so terminated may again become eligible to participate in the Plan by satisfying the requirements of Sections 5 and 7.1.

14. CHANGE IN CONTROL.

14.1 DEFINITIONS.

(a) An "OWNERSHIP CHANGE EVENT" shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the shareholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

(b) A "CHANGE IN CONTROL" shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, the "TRANSACTION") wherein the shareholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of a Transaction described in Section 14.1(a) (iii), the corporation or other business entity to which the assets of the Company were transferred (the "TRANSFEREE"), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Board shall have the right to determine whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

14.2 EFFECT OF CHANGE IN CONTROL ON PURCHASE RIGHTS. In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the "ACQUIRING CORPORATION"), may, without the consent of any Participant, assume the Company's rights and obligations under the Plan. If the Acquiring Corporation elects not to assume the Company's rights and obligations under the Plan, the Purchase Date of the then current Purchase Period shall be accelerated to a date before the date of the Change in Control specified by the Board, but the number of shares of Stock subject to outstanding Purchase Rights shall not be adjusted. All Purchase Rights which are neither assumed by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control.

15. NONTRANSFERABILITY OF PURCHASE RIGHTS.

Neither payroll deductions credited to a Participant's Plan account nor a Participant's Purchase Right may be assigned, transferred, pledged or otherwise disposed of in any manner other than as provided by the Plan or by will or the laws of descent and distribution. (A beneficiary designation pursuant to Section 20 shall not be treated as a disposition for this purpose.) Any such attempted assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw from the Plan as provided in Section 12.1. A Purchase Right shall be exercisable during the lifetime of the Participant only by the Participant.

16. COMPLIANCE WITH SECURITIES LAW.

The issuance of shares under the Plan shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities. A Purchase Right may not be exercised if the issuance of shares upon such exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any securities exchange or market system upon which the Stock may then be listed. In addition, no Purchase Right may be exercised unless (a) a registration statement under the Securities Act of 1933, as amended, shall at the time of exercise of the Purchase Right be in effect with respect to the shares issuable upon exercise of the Purchase Right, or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Purchase Right may be issued in accordance with the terms of an applicable exemption from the registration requirements of said Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of a Purchase Right, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation, and to make any representation or warranty with respect thereto as may be requested by the Company.

17. RIGHTS AS A SHAREHOLDER AND EMPLOYEE.

A Participant shall have no rights as a shareholder by virtue of the Participant's participation in the Plan until the date of the issuance of a certificate for the shares purchased pursuant to the exercise of the Participant's Purchase Right (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 4.2. Nothing herein shall confer upon a Participant any right to continue in the employ of the Participating Company Group or interfere in anyway with any right of the Participating Company Group to terminate the Participant's employment at any time.

18. LEGENDS.

The Company may at any time place legends or other identifying symbols referencing any applicable federal, state or foreign securities law restrictions or any provision convenient in the administration of the Plan on some or all of the certificates representing shares of Stock issued under the Plan. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to a Purchase Right in the possession of the Participant in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include but shall not be limited to the following:

"THE SHARES EVIDENCED BY THIS CERTIFICATE WERE ISSUED BY THE CORPORATION TO THE REGISTERED HOLDER UPON THE PURCHASE OF SHARES UNDER AN EMPLOYEE STOCK PURCHASE PLAN AS DEFINED IN SECTION 423 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED. THE TRANSFER AGENT FOR THE SHARES EVIDENCED HEREBY SHALL NOTIFY THE CORPORATION IMMEDIATELY OF ANY TRANSFER OF THE SHARES BY THE REGISTERED HOLDER HEREOF. THE REGISTERED HOLDER SHALL HOLD ALL SHARES PURCHASED UNDER THE PLAN IN THE REGISTERED HOLDER'S NAME (AND NOT IN THE NAME OF ANY NOMINEE)."

19. NOTIFICATION OF DISPOSITION OF SHARES.

The Company may require the Participant to give the Company prompt notice of any disposition of shares acquired by exercise of a Purchase Right. The Company may require that until such time as a Participant disposes of shares acquired upon exercise of a Purchase Right, the Participant shall hold all such shares in the Participant's name (or, if elected by the Participant, in the name of the Participant and his or her spouse but not in the name of any nominee) until the later of two years after the date of grant of such Purchase Right or one year after the date of exercise of such Purchase Right. The Company may direct that the certificates evidencing shares acquired by exercise of a

Purchase Right refer to such requirement to give prompt notice of disposition.

20. DESIGNATION OF BENEFICIARY.

20.1 DESIGNATION PROCEDURE. A Participant may file a written designation of a beneficiary who is to receive (a) shares and cash, if any, from the Participant's Plan account if the Participant dies subsequent to a Purchase Date but prior to delivery to the Participant of such shares and cash or (b) cash, if any, from the Participant's Plan account if the Participant dies prior to the exercise of the Participant's Purchase Right. If a married Participant designates a beneficiary other than the Participant's spouse, the effectiveness of such designation shall be subject to the consent of the Participant's spouse. A Participant may change his or her beneficiary designation at any time by written notice to the Company.

20.2 ABSENCE OF BENEFICIARY DESIGNATION. If a Participant dies without an effective designation pursuant to Section 20.1 of a beneficiary who is living at the time of the Participant's death, the Company shall deliver any shares or cash credited to the Participant's Plan account to the Participant's legal representative.

21. NOTICES.

All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. SHAREHOLDER APPROVAL.

The Plan shall be approved by the shareholders of the Company within twelve (12) months of the date of adoption thereof by the Board.

23. AMENDMENT OR TERMINATION OF THE PLAN.

The Board may at any time amend or terminate the Plan, except that (a) no such amendment or termination shall affect Purchase Rights previously granted under the Plan unless expressly provided by the Board and (b) no such amendment or termination may adversely affect a Purchase Right previously granted under the Plan without the consent of the Participant, except to the extent permitted by the Plan or as may be necessary to qualify the Plan as an employee stock purchase plan pursuant to Section 423 of the Code or to comply with any applicable law, regulation or rule. In addition, an amendment to the Plan must be approved by the shareholders of the Company within twelve (12) months of the adoption of such amendment if such amendment would authorize the sale of more shares than are then authorized for issuance under the Plan or would change the

definition of the corporations that may be designated by the Board as Participating Companies.

EXHIBIT A

FORM OF AMENDED AND RESTATED
COMMERCIAL LEASE AGREEMENT

This Amended and Restated Commercial Lease Agreement ("Lease") is made and entered as of _____, 2001 by and between ESS Technology Inc., a California corporation ("Landlord") and Vialta Inc., a Delaware corporation ("Tenant"), to amend and restate that certain Commercial Lease Agreement between Landlord and Tenant dated January 1, 2001.

Landlord is the owner of land and improvements in Fremont, California legally described on Exhibit 1 attached hereto and incorporated by reference herein (the "Project").

The Leased Premises are improved with a freestanding building consisting of 77,249 square feet commonly known as 48461 Fremont Blvd., Fremont, California (the "Leased Premises"). The Leased Premises are a portion of the Project, as depicted on Exhibit 2 attached hereto.

Landlord desires to lease the Leased Premises to Tenant, and Tenant desires to lease the Leased Premises from Landlord for the term, at the rental and upon the covenants, conditions and provisions herein set forth.

THEREFORE, in consideration of the mutual promises herein contained and other good and valuable consideration, it is agreed:

1. Premises and Common Areas. Landlord hereby leases to Tenant the Leased Premises. In addition to the Leased Premises, Landlord grants to Tenant a nonexclusive license to use the Common Areas during the term of this Lease. The term "Common Areas" is defined as the area and facilities outside the Leased Premises as depicted on Exhibit 2 attached hereto that is designated by the Landlord for the general non-exclusive use of Landlord, Tenant and other lessees of the Project and their respective employees, suppliers, shippers, customers and invitees, including but not limited to parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, ramps, driveways, landscaped areas and decorative walls. Landlord shall have the right to make changes to the Common Areas provided that such changes do not unreasonably interfere with Tenant's use and enjoyment of the Leased Premises.

2. Term.

(a) The initial term of this Lease shall commence on January 1, 2001 ("Commencement Date") and end on December 31, 2003 ("Initial Term").

(b) Tenant may renew the Lease for one extended term of up to three (3) years ("Renewal Term"). Tenant shall exercise such renewal option, if at all, by giving written notice to Landlord not less than ninety (90) days prior to the expiration of the Initial Term. The renewal term shall be at the rental set forth below and otherwise upon the same covenants, conditions and provisions as provided in this Lease. The Initial Term and the Renewal Term shall be referred to herein as the "Term."

Exhibit A-1

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3. Rental.

(a) Tenant shall pay to Landlord during the Initial Term rental of \$1,853,976.00 per year, payable in installments of \$154,498.00 per month. Each installment payment shall be due in advance on the first day of each calendar month during the lease term to Landlord at ESS Technology Inc., 48401 Fremont Blvd., Fremont, CA 94538, Attn: Accounting Dept., or at such other place designated by written notice from Landlord or Tenant. The rental payment amount for any partial calendar months included in the lease term shall be prorated on a daily basis.

(b) The rental for any renewal lease term, if created as permitted under this Lease, shall be \$1,853,976.00 per year, payable in installments of \$154,498.00 per month.

4. Use. Tenant may use the Leased Premises for general office purposes and for any purpose not prohibited by (i) law and (ii) any covenants, conditions and restrictions affecting the Leased Premises as of the date of this Lease. Notwithstanding the forgoing, Tenant shall not use the Leased Premises for the purposes of storing, manufacturing or selling any explosives, flammables or any other inherently dangerous substance regulated by law ("Hazardous Substance"), except for such Hazardous Substances customarily used in an office, without the prior written consent of Landlord.

5. Sublease and Assignment. Tenant shall have the right without Landlord's consent to assign this Lease to a corporation with which Tenant may merge or consolidate, to any subsidiary of Tenant, to any corporation that controls, is controlled by or under common control with Tenant, or to a purchaser of all or substantially all of Tenant's assets. Except as set forth above, Tenant shall not sublease all or any part of the Leased Premises, or assign this Lease in whole or in part without Landlord's consent, such consent not to be unreasonably withheld, conditioned or delayed.

6. Repairs by Tenant. During the Lease term, Tenant shall make, at Tenant's expense, all necessary repairs to the interior of the Leased Premises except those provided in Section 7 hereof. Tenant's repairs shall include such items as routine repairs of interior floors, walls, ceilings, and other interior parts of the Leased Premises damaged or worn through normal occupancy, subject

to the obligations of the parties otherwise set forth in this Lease.

7. Tenant Alterations and Improvements. Tenant, at Tenant's expense, shall have the right following Landlord's consent to remodel, redecorate, and make additions, improvements and replacements of and to all or any part of the Leased Premises from time to time as Tenant may deem desirable, provided the same are made in a workmanlike manner and utilizing good quality materials. Tenant shall have the right to place and install personal property, trade fixtures, equipment and other temporary installations in and upon the Leased Premises, and fasten the same to the Leased Premises. All personal property, equipment, machinery, trade fixtures and temporary installations, whether acquired by Tenant at the commencement of the Term or placed or installed on the Leased Premises by Tenant thereafter, shall remain Tenant's property free and clear of any claim by Landlord. Tenant shall have the right to remove the same at any time during the term of this Lease provided that all damage to the Leased Premises caused by such removal shall be repaired by Tenant at Tenant's expense.

Exhibit A-2

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Notwithstanding the foregoing, Tenant shall be entitled to make non-structural interior alterations to the Leased Premises which do not exceed Twenty Five Thousand Dollars (\$25,000) in cost in any calendar year without Landlord's prior written consent.

8. Landlord's Maintenance and Repairs. Except for damage caused by the active negligence or willful misconduct of Tenant, in which event Tenant shall repair the damage, Landlord, at Landlord's sole expense, shall keep in good condition and repair the exterior walls, roof (including roof membrane), elevator shafts, footings, foundations, structural portions of load-bearing walls, structural floors and subfloors, and structural columns and beams ("Building's Structure"). Landlord, at Landlord's expense, shall keep in good condition and repair the Leased Premises' HVAC, life-safety, plumbing, electrical and mechanical systems ("Building Systems") as well as the parking lots, walkways, driveways, landscaping, fences, signs and utility installations of the Common Areas upon the Leased Premises and all parts thereof. Landlord shall commence and complete such repairs hereunder within thirty (30) days after receipt of written notice from Tenant of the need for such repairs, except in the case of an emergency, when such repairs shall be commenced and completed as soon as possible. Tenant expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to furnish any services when such failure is caused by accident, breakage, repairs, strikes, lockout, or other labor disturbances or by any other cause beyond the reasonable control of Landlord.

9. Property Taxes. Landlord shall pay, prior to delinquency, all general real estate taxes and installments of special assessments coming due during the Lease term on the Leased Premises, and all personal property taxes with respect

to Landlord's personal property, if any, on the Leased Premises. Tenant shall be responsible for paying all personal property taxes with respect to Tenant's personal property at the Leased Premises.

10. Insurance.

(a) If the Leased Premises are damaged by fire or other casualty resulting from the act or negligence or willful misconduct of Tenant or any of Tenant's agents, employees or invitees, rent shall not be diminished or abated while such damages are under repair, and Tenant shall be responsible for the costs of repair not covered by insurance.

(b) Landlord shall maintain fire and extended coverage insurance on the Project, in such amounts, as Landlord shall deem appropriate. Tenant shall be responsible, at its expense, for fire and extended coverage insurance on all of its personal property, including removable trade fixtures, located in the Leased Premises.

(c) Tenant and Landlord shall, each at its own expense, maintain a policy or policies of comprehensive general liability insurance with respect to the respective activities of each in the Leased Premises with the premiums thereon fully paid on or before due date, issued by and binding upon some insurance company approved by Landlord, such insurance to afford minimum protection of not less than \$1,000,000 combined single limit coverage of bodily injury, property damage or combination thereof. Landlord shall be listed as an additional insured on Tenant's policy or policies of comprehensive general liability insurance, and Tenant shall

Exhibit A-3

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provide Landlord with current Certificates of Insurance evidencing Tenant's compliance with this Paragraph. Tenant shall obtain the agreement of Tenant's insurers to notify Landlord that a policy is due to expire at least (10) days prior to such expiration. Landlord shall not be required to maintain insurance against thefts within the Project.

(d) Notwithstanding anything to the contrary in this Lease or any Ancillary Agreement (as that term is defined in that certain Master Distribution Agreement between Landlord and Tenant dated _____), Tenant hereby waives any right of recovery against Landlord and its respective agents, employees, contractors and invitees, and Landlord hereby waives any right of recovery against Tenant and its agents, employees, contractors and invitees, for any loss or damage that is covered by any insurance policy maintained or required to be maintained with respect to this Lease or the Project. Each party shall, in addition to naming the other parties as additional insureds/loss payees on all applicable policies, inform all its insurers of policies described in this Lease about this waiver of subrogation, and shall secure from such insurers amendments to the policies recognizing and providing for such waiver.

11. Indemnity.

(a) Tenant's Indemnification. Tenant hereby agrees to indemnify, defend and hold harmless Landlord from and against any and all claims, losses, liabilities and expenses, including reasonable attorneys' fees (whether incurred in litigation, on appeal, discretionary review, or otherwise), suffered or incurred by Landlord by reason of (a) the occupancy of the Leased Premises by Tenant, the conduct of Tenant's business thereon, or any act, omission or neglect of Tenant, its agents, contractors, employees, subtenants or invitees in relation thereto, on or after the Commencement Date, (b) the release of any Hazardous Substance in or about the Leased Premises or the violation of any environmental, health and safety laws by Tenant or its agents, contractors, employees or invitees, or (c) any breach by Tenant of any of Tenant's obligations under the Lease.

(b) Landlord's Indemnification. Landlord hereby agrees to indemnify, defend and hold harmless Tenant from and against any and all claims, losses, liabilities and expenses, including reasonable attorneys' fees (whether incurred in litigation, on appeal, discretionary review, or otherwise) suffered or incurred by Tenant by reason of (a) the occupancy of the Project by Landlord, the conduct of Landlord's business thereon, or any act, omission or neglect of Landlord, its agents, contractors, employees, tenants or invitees in relation thereto, before or after the Commencement Date, (b) any environmental contamination or pollution of the Leased Premises that occurred or existed before the Commencement Date, including cleanup and removal from the Leased Premises of any such prior Hazardous Substance or contamination unless such preexisting condition is caused by the affirmative act of Tenant, its employees, agents, contractors successors or assigns, or (c) any breach by Landlord of any of Landlord's obligations under the Lease.

12. Utilities. Tenant shall pay all charges for water, sewer, gas, electricity, telephone and other services and utilities used by Tenant on the Leased Premises during the term of this Lease unless otherwise expressly agreed in writing by Landlord. In the event that any utility or service provided to the Leased Premises is not separately metered, Landlord shall pay the amount due and separately invoice Tenant for Tenant's pro rata share of the charges. Tenant

Exhibit A-4

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shall pay such amounts within fifteen (15) days of invoice. In the event that Landlord uses the Leased Premises' HVAC system to service the Leased Premises and Landlord's adjacent building ("Landlord's Facility"), Tenant shall pay the amount due and separately invoice Landlord for Landlord's pro rata share of the charges. Landlord shall pay such amounts within fifteen (15) days of invoice. Tenant shall not use any equipment or devices that, in Landlord's reasonable opinion, overload the wiring or interfere with electrical services to other tenants. Landlord shall pay all charges for water, sewer, gas, electricity and

other services used in the Common Areas.

13. Signs. Tenant shall have the right to place on the Leased Premises, at locations selected by Tenant, any signs which are permitted by applicable zoning ordinances and private restrictions. Landlord shall assist and cooperate with Tenant in obtaining any necessary permission from governmental authorities or adjoining owners to place or construct the foregoing signs. Tenant shall repair all damage to the Leased Premises resulting from the removal of signs installed by Tenant.

14. Entry. Landlord shall have the right to enter upon the Leased Premises upon reasonable notice at reasonable hours to inspect the same, provided Landlord shall not thereby unreasonably interfere with Tenant's business on the Leased Premises.

15. Parking. During the term of this Lease, Tenant shall have the non-exclusive use of the automobile parking areas, driveways, and footways in the Common Areas, subject to reasonable rules and regulations for the use thereof as prescribed from time to time by Landlord.

16. Project Rules. Tenant will comply with the reasonable rules of the Project and Leased Premises adopted and altered by Landlord from time to time and will cause all of its agents, employees, invitees and visitors to do so; all changes to such rules will be sent by Landlord to Tenant in writing. The initial rules for the Project and Leased Premises are attached hereto as Exhibit 3 and incorporated herein for all purposes.

17. Damage and Destruction. Subject to Section 10(a) above, if the Leased Premises or any part thereof or any appurtenance thereto suffers Material Damage by fire, casualty or structural defects so that the same cannot be used for Tenant's purposes, then Tenant shall have the right within ninety (90) days following damage to elect by notice to Landlord to terminate this Lease as of the date of such damage. In the event of minor damage to any part of the Leased Premises, and if such damage does not render the Leased Premises unusable for Tenant's purposes, Landlord shall promptly repair such damage at the cost of the Landlord. In making the repairs called for in this paragraph, Landlord shall not be liable for any delays resulting from strikes, governmental restrictions, inability to obtain necessary materials or labor or other matters which are beyond the reasonable control of Landlord. Tenant shall be relieved from paying rent and other charges during any portion of the Lease term that the Leased Premises are inoperable or unfit for occupancy, or use, in whole or in part, for Tenant's purposes in the proportion that the area of the Leased Premises not occupied by Tenant bears to the total area of the Leased Premises. Rentals and other charges paid in advance for any such periods shall be credited on the next ensuing payments, if any, but if no further payments are to be made, any such advance payments shall be refunded to Tenant. The provisions of this paragraph extend not only to the matters aforesaid, but also to any occurrence which is beyond Tenant's reasonable control and

which renders the Leased Premises, or any appurtenance thereto, inoperable or unfit for occupancy or use, in whole or in part, for Tenant's purposes. For purposes of this paragraph, "Material Damage" means that all or part of the Leased Premises is damaged or destroyed to the extent that Landlord cannot reasonably repair the damage within one hundred eighty (180) days after the date the damage or destruction occurred. Within thirty (30) days after any damage to the Leased Premises, Landlord shall provide Tenant with a written certificate from Landlord's contractor specifying whether such damage constitutes Material Damage.

18. Default. If Tenant shall fail to pay rent when due to Landlord as herein provided, and if said failure shall continue for fifteen (15) days after written notice thereof shall have been given to Tenant by Landlord, or if Tenant fails to perform any of the other covenants or conditions to be kept, observed and performed by Tenant, and such failure shall continue for thirty (30) days after notice thereof in writing to Tenant by Landlord without correction thereof then having been commenced and thereafter diligently prosecuted, Tenant shall be in default of this Lease and Landlord may declare the term of this Lease ended and terminated by giving Tenant written notice of such intention, and if possession of the Leased Premises is not surrendered, Landlord may reenter said premises. Landlord shall have, in addition to the remedy above provided, any other right or remedy available to Landlord on account of any Tenant default, either in law or equity. Landlord shall use reasonable efforts to mitigate its damages.

19. Quiet Possession. Landlord covenants and warrants that upon performance by Tenant of its obligations hereunder, Landlord will keep and maintain Tenant in exclusive, quiet, peaceable and undisturbed and uninterrupted possession of the Leased Premises during the term of this Lease.

20. Condemnation. If any legally, constituted authority condemns the Leased Premises or such part thereof which shall make the Leased Premises unsuitable for leasing, this Lease shall cease when the public authority takes possession, and Landlord and Tenant shall account for rental as of that date. Such termination shall be without prejudice to the rights of either party to recover compensation from the condemning authority for any loss or damage caused by the condemnation. Neither party shall have any rights in or to any award made to the other by the condemning authority.

21. Subordination. Upon written request of Landlord, or the holder of any mortgage, deed of trust or other lien ("Lien Holder") encumbering the Leased Premises, Tenant shall subordinate its rights hereunder to the lien of any mortgage or deed of trust or other lien presently existing or hereafter arising upon the Leased Premises and to any renewals, refinancing and extensions thereof; provided that the Lien Holder agrees to recognize the Tenant's rights under this Lease and not to disturb the possession, use and other rights of Tenant under this Lease. Landlord agrees to use commercially reasonable efforts to obtain a Subordination, Non-Disturbance and Attornment Agreement from the current Lien Holder(s), if any, and deliver same to Tenant within thirty (30)

days from the date of this Lease. In addition, Landlord agrees to obtain a SNDA from any future Lien Holder within thirty (30) days after Landlord obtains financing from such Lien Holder; provided that if such SNDA is not so delivered, Tenant shall not be required to subordinate its rights under this Lease to such future Lien Holder's lien. In the event of acquisition of title to the Leased Premises by said Lien Holder or any person through foreclosure proceedings or otherwise, the Lien Holder or other person acquiring title to the

Exhibit A-6

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Premises agrees to accept Tenant under the Lease and to perform the Landlord's obligations hereunder, provided that no default has occurred and is continuing; and Tenant agrees to attorn to and recognize such Lien Holder or any other person acquiring title to the Premises. Landlord and Tenant agree that they will from time to time upon request execute and deliver a statement in recordable form certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as so modified), stating the dates to which rent and other charges payable under this Lease have been paid, stating that no party is not in default hereunder (or, if there is an alleged default, stating the nature of such alleged default).

22. Notice. Any notice required or permitted under this Lease shall be deemed sufficiently given or served if sent prepaid, by United States certified mail, return receipt requested, addressed as follows:

If to Landlord to: ESS Technology Inc.
 48401 Fremont Blvd.
 Fremont, CA 94538

If to Tenant to: Vialta Inc.
 48461 Fremont Blvd.
 Fremont, CA 94538

Landlord and Tenant shall each have the right from time to time to change the place notice is to be given under this paragraph by written notice thereof to the other party.

23. Brokers. Landlord and Tenant represent that neither party was shown the Leased Premises by any real estate broker or agent and that neither party has otherwise engaged in any activity which could form the basis for a claim for real estate commission, brokerage fee, finder's fee or other similar charge, in connection with this Lease.

24. Waiver. No waiver of any default of Landlord or Tenant hereunder shall be implied from any omission to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default specified in the express waiver and that only for

the time and to the extent therein stated. One or more waivers by Landlord or Tenant shall not be construed as a waiver of a subsequent breach of the same covenant, term or condition.

25. Memorandum of Lease. The parties hereto contemplate that this Lease should not and shall not be filed for record, but in lieu thereof, at the request of either party, Landlord and Tenant shall execute a Memorandum of Lease to be recorded for the purpose of giving record notice of the appropriate provisions of this Lease.

26. Headings. The headings used in this Lease are for convenience of the parties only and shall not be considered in interpreting the meaning of any provision of this Lease.

27. Successors. The provisions of this Lease shall extend to and be binding upon Landlord and Tenant and their respective legal representatives, successors and assigns.

Exhibit A-7

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28. Consent. Landlord shall not unreasonably withhold, condition or delay its consent with respect to any matter for which Landlord's consent is required or desirable under this Lease.

29. Attorneys' Fees. If either party brings any action or legal proceeding with respect to this Lease, the prevailing party shall be entitled to recover reasonable attorneys' and experts' fees and court costs.

30. Performance. If there is a default with respect to any of Landlord's covenants, warranties or representations under this Lease, and if the default continues more than fifteen (15) days after notice in writing from Tenant to Landlord specifying the default, Tenant may, at its option and without affecting any other remedy hereunder, cure such default and deduct the cost thereof from the next accruing installment or installments of rent payable hereunder until Tenant shall have been fully reimbursed for such expenditures, together with interest thereon at a rate equal to the lesser of twelve percent (12%) per annum or the then highest lawful rate. If this Lease terminates prior to Tenant's receiving full reimbursement, Landlord shall pay the unreimbursed balance plus accrued interest to Tenant on demand.

31. Compliance with Law. Tenant shall comply with all laws, orders, ordinances and other public requirements now or hereafter pertaining to Tenant's use of the Leased Premises and Common Areas. Landlord shall comply with all laws, orders, ordinances and other public requirements now or hereafter affecting the Project. This Lease shall in all respects be governed by and construed in accordance with the laws of the State of California.

32. Final Agreement. This Lease terminates and supersedes all prior

understandings or agreements on the subject matter hereof. This Lease may be modified only by a further writing that is duly executed by both parties.

33. Cafeteria License. Beginning on the Commencement Date and continuing throughout the Term, Landlord agrees to allow Tenant's employees to dine in the cafeteria located at the Landlord's Facility ("Cafeteria License"). The Cafeteria License shall be for the specific purpose of dining at the cafeteria during the hours of access determined by Landlord for its employees and at no other times. During the term of the Cafeteria License, Tenant employees may purchase meals in the cafeteria at the same price as such meals are offered to Landlord's employees. Tenant shall use, and shall cause each of its employees, agents, contractors, invitees and visitors to use, the cafeteria in compliance with the reasonable and nondiscriminatory rules and regulations established by Landlord, provided Landlord has given Tenant written notice of such rules and regulations.

34. Hotel Use. Landlord is the owner of a hotel (the "ESS Hotel") adjacent to the Leased Premises. Subject to room availability, Landlord shall permit Tenant the continuing right throughout the term to rent rooms at the ESS Hotel for Tenant's employees, agents and business invitees at such rates that Landlord shall reasonably determine from time to time; provided, however, that such rates shall be no more than the lowest rate charged to guests of the hotel who are not employees of Landlord during the calendar year.

Exhibit A-8

IN WITNESS WHEREOF, the parties have executed this Lease as of the day and year first above written.

LANDLORD:

TENANT:

ESS TECHNOLOGY INC.,
a California corporation

VIALTA INC.,
a Delaware corporation

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Exhibit A-9

EXHIBIT 1

LEGAL DESCRIPTION

Exhibit 1-1

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EXHIBIT 2

DEPICTION OF LEASED PREMISES AND COMMON AREAS

Exhibit 2-1

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EXHIBIT 3

PROJECT RULES

Exhibit 3-1

NOTE: PORTIONS OF THIS EXHIBIT INDICATED BY "[*****]" ARE SUBJECT TO A REQUEST FOR CONFIDENTIAL TREATMENT, AND HAVE BEEN OMITTED FROM THIS EXHIBIT. A COMPLETE, UNREDACTED COPY OF THIS EXHIBIT HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AS PART OF THIS COMPANY'S CONFIDENTIAL TREATMENT REQUEST.

PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT (the "Agreement") is entered into effective as of August 1, 1999 by and between VIALTA. com, a California corporation, with principal offices at 48401 Fremont Boulevard, Fremont, California 94538 ("Buyer") and ESS Technology, Inc., a California corporation, with principal offices at 45401 Fremont Boulevard, Fremont, California 94538 and any of its subsidiaries (collectively referred to as "Seller").

1. PURPOSE

A. The purpose of this Agreement is to set forth the terms and conditions under which Buyer may purchase Products (as defined below) from Seller. Buyer intends to enter into a long-term relationship with Seller. As such, Seller agrees to use reasonable commercial efforts to cooperate with Buyer to further mutual long-term goals by sharing product road map and technology directions. Buyer also expects Seller to cooperate to achieve Buyer's long term program goals such as shortening product lead-times, increasing volume flexibility, achieving Just-in-Time delivery, achieving ongoing cost reductions, specific quality goals, and continuous quality improvement.

B. This Agreement is not a requirements contract and does not obligate Buyer to purchase any minimum quantity or product, but only establishes the terms and conditions for the purchases if and when they occur. Seller is not obligated to accept any orders from Buyer under the terms hereof.

2. PRODUCTS AND PURCHASE ORDERS

A. This Agreement covers the sale by Seller to Buyer of all products, hereinafter referred to as ("Products"), as will be indicated on purchase orders issued by Buyer to Seller.

B. Buyer will purchase Products only by issuing purchase orders (hereinafter referred to as an "Order" or "Orders") to Seller. Each Order shall include information regarding Product quantities, part numbers (including identification of revision levels where relevant), prices and desired delivery dates.

C. Seller agrees that all Buyer sites, subsidiaries, affiliate companies and subcontractors, wherever located, shall be entitled to make purchases under the terms and conditions of this Agreement. Seller agrees to drop-ship Products to subcontractor sites as specified by Buyer in the Order.

3. PRICING

A. [*****]

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B. Seller shall maintain a vigorous cost reduction program to ensure that pricing is competitive at all times. In the event that Buyer does not consider Seller's pricing aggressive relative to the market, Buyer shall have the right to request an immediate meeting with the Seller to re-negotiate pricing.

4. TERM OF AGREEMENT

A. This Agreement shall continue in force for a fixed term of one (1) year from the date hereof. At the end of the fixed term, this Agreement shall renew automatically for additional one (1) year terms, without notice, unless prior to that one party provides thirty (30) days' written notice of non-renewal to the other party.

B. The terms and conditions of this Agreement shall remain in full force and effect and shall be applicable to any Order(s) issued by Buyer to Seller during the term of this Agreement until any and all obligations of the parties under such Order(s) have been fulfilled.

5. DELIVERY

A. All sales are F.O.B. Point of Shipment. Title and risk of loss shall pass to Buyer upon Seller's delivery of Product purchased hereunder to carrier authorized by Buyer.

B. Buyer has the option to reschedule any scheduled delivery by giving Seller thirty (30) calendar days notice. The Buyer, however, can not reschedule the delivery beyond 90 days from the original requested delivery date.

6. QUALITY

A. Seller agrees to deliver defect-free material to Buyer at all times. A product shall be deemed defective to the extent that it does not comply with Seller's published specification with regard to that product. Seller agrees that the Products will be free of defects for 12 months from the original date

of Product shipment to Buyer or of any replacement thereof. This warranty shall run in favor of Buyer only, and is contingent upon proper use of the Product for which it was intended. Buyer's sole remedy shall be limited to the repair or replacement of defective products.

B. Seller agrees to establish and/or maintain a quality improvement plan reasonably acceptable to Buyer. Seller agrees to provide relevant outgoing inspection, quality and reliability data upon Buyer's request, but not more frequently than once per month.

C. The express warranties set forth herein specifically exclude and do not apply to defects: (a) caused through no fault of SELLER during shipment to or from Buyer, (b) caused by the use or operation of Products in an application or environment other than that intended or recommended by SELLER, (c) caused by modifications or alterations made to the Products by Buyer or any third party, (d) caused by maintenance performed on the Products by Buyer or any third party, (e) caused by failure of Buyer to comply with any of the return procedures specified in this Agreement, (f) caused by subjecting the Product to unusual physical or electrical stress, or (g) defects caused by misuse, theft, vandalism, fire, water or other peril.

NOTE: PORTIONS OF THIS EXHIBIT INDICATED BY "[*****]" ARE SUBJECT TO A REQUEST FOR CONFIDENTIAL TREATMENT, AND HAVE BEEN OMITTED FROM THIS EXHIBIT. A COMPLETE, UNREDACTED COPY OF THIS EXHIBIT HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AS PART OF THIS COMPANY'S CONFIDENTIAL TREATMENT REQUEST.

EXCEPT AS STATED HEREIN, THERE ARE NO OTHER WARRANTIES WITH RESPECT TO THE PRODUCTS, INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

D. Seller agrees to advise Buyer of any material changes to its processes, materials, or sources of supply and agrees to ensure that such changes do not compromise specifications, quality, or reliability of the Products purchased by Buyer and subsequently incorporated into Buyer's products.

7. TERMINATION

A. TERMINATION FOR CONVENIENCE. This Agreement may be terminated by either party for any reason or no reason, whether or not extended beyond the first year, by giving written notice 60 days in advance of the termination to the other party.

B. TERMINATION FOR CAUSE. If either party materially defaults in its performance or breaches any of the terms or conditions of this Agreement, then the other party may give written notice to the breaching or defaulting party

that if the breach or default is not cured within 30 days that the Agreement will be terminated. If such notice is given and the breach or default is not cured during the 30-day period, then the Agreement shall automatically terminate at the end of that notice period.

C. TERMINATION FOR INSOLVENCY. This Agreement shall terminate immediately without notice: (i) upon the institution by or against Buyer or Seller of insolvency, receivership or bankruptcy proceedings or any other proceedings for the settlement of Buyer's or Seller's debts; (ii) upon Buyer's or Seller's making an assignment for the benefit of creditors; or (iii) upon Buyer's or Seller's dissolution or liquidation.

8. LIMITATION ON LIABILITY

BUYER'S AND SELLER'S LIABILITY ARISING OUT OF THIS AGREEMENT SHALL BE LIMITED TO THE FULFILLMENT OF OPEN ORDERS BY SELLER AND THE PAYMENTS OF SUCH ORDERS BY BUYER. IN NO EVENT SHALL BUYER OR SELLER BE LIABLE TO THE OTHER PARTY OR ANY OTHER ENTITY FOR ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL, OR INDIRECT DAMAGES HOWEVER CAUSED, ON ANY THEORY OF LIABILITY, AND NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY.

9. CONFIDENTIALITY

Buyer and Seller each acknowledge that by reason of its relationship with the other party hereunder it may have access to certain information and materials concerning such other party's business, plans, customers, technology, and products that are confidential and of substantial value to Buyer or Seller, as the case may be, which value would be impaired if such information were disclosed to third parties. Buyer and Seller each agree that they shall not use in any way for their own account or the account of any third party, nor disclose to any third party, any such confidential information revealed to it by the other party. Buyer and Seller shall each take every reasonable precaution to protect the confidentiality of such information, including, at the request of the other party, the entry by Buyer's or Seller's agents and employees into confidentiality

agreements in a form approved by the other party, prohibiting any disclosure to third parties of confidential information provided by Buyer or Seller, as the case may be. In the event of termination or expiration of this Agreement, there shall be no use or disclosure by Buyer or Seller, their agents, or employees of any confidential information of the other party. Each party shall deliver to the other party all copies within its possession or within its control of all documents and data relating to the conduct of Buyer's or Seller's business.

10. GENERAL PROVISIONS

A. GOVERNING LAW AND JURISDICTION. This Agreement shall be governed by and construed under the laws of the State of California, as applied to contracts made and to be fully performed entirely within that state between residents of that state. All disputes arising out of this Agreement shall be subject to the exclusive jurisdiction and venue of the California State courts of Santa Clara County, California (or, if there is federal jurisdiction, the United States District Court for the Northern District of California). Buyer and Seller hereby expressly consent to (i) the personal jurisdiction and venue of these courts and (ii) service of process being effected by registered airmail sent to the address set forth in Section 7(c) below.

B. ENTIRE AGREEMENT. This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter herein and merges all prior discussions between them. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the party to be charged.

C. NOTICES. Any notice required or permitted by this Agreement shall be in writing and shall be deemed given if sent by prepaid registered or certified airmail, return receipt requested (if available), or sent by telex, facsimile or similar communication, and confirmed by such airmail, postage prepaid, addressed to the other party at the address shown at the beginning of this Agreement or at such other address for which such party gives notice hereunder.

D. FORCE MAJEURE. Nonperformance of either party shall be excused to the extent that performance is rendered impossible by strike, fire, flood, governmental acts, orders or restrictions, or any other reason where failure to perform is beyond the control and not caused by the negligence of the non-performing party, provided that the non-performing party uses its reasonable best efforts to promptly resume performance once it is possible to do so.

E. NON-ASSIGNABILITY AND BINDING EFFECT. Neither party shall, without the prior written consent of the other party, assign this Agreement in whole or in part or delegate any right or duty hereunder to any third party, sub-agent, representative or consultant. Any attempted assignment not having such consent shall be void and without effect.

F. LEGAL EXPENSES. The prevailing party in any legal action brought by one party against the other and arising out of this Agreement shall be entitled, in addition to any other rights and remedies it may have, to reimbursement for its expenses, including court costs and reasonable attorneys' fees.

G. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original.

H. SEVERABILITY. If any term, provision, covenant or condition of this Agreement is held invalid or unenforceable for any reason, the remaining provisions shall continue in full force and effect as if the Agreement had been executed with the invalid portion eliminated, so long as the Agreement continues to express, without material change, the original intent of the parties.

11. INDEMNIFICATION

A. Seller shall defend, at its expense, any claim against Buyer alleging that Products furnished under this Agreement infringes any patent, copyright or trademark and shall pay any costs and damages awarded provided Seller is notified in writing of such claims promptly when Buyer becomes aware of such and Seller is permitted to control, defend and compromise such claim. Sellers shall use commercially reasonable efforts to obtain for Buyer the right to continue using the Products if an injunction against Buyer's use of the Products is resulted. In the event that Seller can not obtain such right for Buyer, Seller shall repurchase all such Products from Buyers at the purchase price.

B. Seller agrees to protect, defend, indemnify and hold Buyer harmless from all sums, costs and expenses which Buyer may incur or he obligated to pay as a result of any and all loss, expenses, damages, liabilities, claims, demands resulting personal injury or damages from the use of any product sold to Buyer by Seller hereunder provided Buyer provides Seller notice of any such loss, expenses, damages, liabilities, claims or demands. Seller shall be liable only to the extent required by applicable law and only where such claims, expenses, damages and demands are held by the court of law to be the result of Products provided by Seller hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

VIALTA.COM

ESS TECHNOLOGY, INC.

By: /s/ FRED S. L. CHAN

By: /s/ ROBERT BLAIR

Title: CEO

Title: CEO

FIRST AMENDMENT TO PURCHASE AGREEMENT

This First Amendment to Purchase Agreement ("FIRST AMENDMENT"), dated June

1, 2001 ("EFFECTIVE DATE"), is entered into by and between ESS Technology, Inc., ("ESS") a California corporation and Vialta, Inc., a Delaware corporation ("VIALTA").

RECITALS

ESS and Vialta have previously entered into that certain Purchase Agreement effective as of August 1, 1999, ("AGREEMENT") for purchase of silicon chips with imbedded technology by Vialta from ESS. The parties desire to extend the term of the Agreement as provided herein.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants contained herein, the parties agree as follows:

1. Definitions. Unless otherwise specified herein, all capitalized terms used in this First Amendment are used as defined in the Agreement.

2. Inconsistent Terms. To the extent of inconsistencies between the terms and conditions of this First Amendment and the terms and conditions of the Agreement, the terms of this First Amendment shall control.

3. Section 4.A. The first sentence of Section 4.A. of the Agreement is replaced in its entirety with the following language:

"This Agreement shall continue in force for a fixed term of five (5) years concluding at midnight on July 31, 2004."

4. Ratification. Except as modified by this First Amendment, the Agreement is hereby ratified, affirmed, in full force and effect, and incorporated herein by this reference.

5. Counterparts. This First Amendment may be executed in multiple counterparts, each of which shall be deemed an original, but all of which, together, shall constitute one and the same instrument.

IN WITNESS THEREOF, the parties have executed this First Amendment as of the Effective Date.

ESS TECHNOLOGY, INC.

VIALTA, INC.

By: /s/ ROBERT BLAIR

By: /s/ FRED S.L. CHAN

Printed Name: Robert Blair

Printed Name: Fred S.L. Chan

Its: Chief Executive Officer

Its: Chief Executive Officer

DVD MANUFACTURING LICENSE AGREEMENT

This DVD MANUFACTURING LICENSE AGREEMENT is made as of the 4th day of April, 2000, by and between MACROVISION CORPORATION, a Delaware corporation, having its principal place of business at 1341 Orleans Drive, Sunnyvale, California 94089, U.S.A., facsimile number (408) 743-8610, and VIALTA.COM, INC., a California corporation, having its principal place of business at 48401 Fremont Blvd., Fremont, California 94538, facsimile number (510) 492-1098.

RECITALS

- A. Macrovision is the owner of all right, title and interest in and to certain anticopying technology which may be used to protect video material against unauthorized analog copying in connection with Digital Video Disc, Digital Video Cassette Recorder or DVD ROM program playback.
- B. As the owner of such technology, Macrovision has developed a unique licensing structure which relies for its success upon the proper implementation of the technology by Licensee, and Licensee acknowledges the importance to the overall success of the DVD industry of Licensee 's compliance with the terms and specifications set out in this Agreement.
- C. Licensee desires to incorporate the Macrovision anticopy technology components into Products.
- D. Macrovision acknowledges Licensee's desire and is ready to make such technology available to Licensee in accordance with the terms and conditions contained in this Agreement.
- E. Prior to the Effective Date of this Agreement, Licensee has made certain written representations to Macrovision, including but not limited to, representations regarding Licensee's background, senior executives, annual reports and/or financial statements, primary customers, bank and credit references, key shareholders, and how Licensee intends to utilize Macrovision technology in the commercial marketplace. Macrovision is relying on these representations in consenting to enter into this Agreement with Licensee.

AGREEMENT

NOW THEREFORE, in consideration of the mutual covenants set forth below, the parties agree as follows:

1. DEFINITIONS

In this Agreement,

- 1.1 "ADAPTIVE CONTROL" means the ability to switch between the primary configuration of the Process and one or more secondary configurations of the Process on a real-time basis in accordance with the status of control bits read from the media;
- 1.2 "AGC SYSTEM" means a system of modifying a video signal so as to inhibit the making of Playable video recordings therefrom. This modification includes adding a combination of either a pseudo sync or a regular sync pulse with an AGC pulse. These pairs of sync and AGC pulses are designed to cause the AGC circuitry in a Recording Device to miscalculate the proper gain setting and thereby render copy protection performance Effective;
- 1.3 "AGREEMENT" means this agreement and all attachments hereto;
- 1.4 "APPARATUS" means apparatus for implementing the Process within a Product;

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CONFIDENTIAL

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- 1.5 "APPARATUS CLAIMS" means claims 14-20 of U.S. Patent No. 4,631,603, claims 8-14 of U.S. Patent No. 4,577,216, claims 9-13 of U.S. Patent No. 4,819,098, claims 18-29, 32,33,44-52 of U.S. Patent No. 4,907,093, foreign counterparts thereof having a first filing date prior to April 14,2007, as well as reissues, continuations, continuations-in-part, divisions, patents of improvement, patents of addition, and inventor certificates thereof, and all patent applications for related improvements filed prior to April 14,2007;
- 1.6 "AUTHORIZED COMPONENT SUPPLIER" means a Macrovision authorized supplier of manufactured Devices;
- 1.7 "COLORSTRIPE" means the modification of a color video signal to inhibit the making of Playable video recordings thereof. The resultant color picture from a subsequent video tape recording will show variations in the color fidelity that appear as bands or stripes of color error;
- 1.8 "COPY PROTECTED" means, when referring to a Disc or Digital Cassette, a Disc or Digital Cassette on which the Trigger Bits have been set to activate the Process in the Product; and when referring to program material means that the Process has been applied to the analog output of the Product;

- 1.9 "DEVICE" means an Authorized Component Supplier's integrated circuit which contains the Apparatus;
- 1.10 "DIGITAL CASSETTE" means a prerecorded digital video cassette which incorporates the Trigger Bits to activate or control part or all of the Process;
- 1.11 "DISC" means a prerecorded digital video disc/digital versatile disc which incorporates the Trigger Bits to activate or control part or all of the Process;
- 1.12 "DISPLAY DEVICE" means consumer-type television sets, TV-VCR Combinations which display an analog NTSC, PAL, YC or YUV signal, and all other devices which display NTSC, PAL, YC or YUV video signals from Products, which Licensee or its Subsidiaries or affiliates manufactures or sells;
- 1.13 "DVCR TECHNOLOGY" means the technology used in the design development and/or manufacture of digital video cassette recorders utilizing industry standard specifications. Such recorders will reproduce real-time recordings as well as play back Digital Cassettes. Such recorders do not include digital recorders that record on a less-than-real time basis for later playback. For the purposes of this Agreement, "less-than-real-time" means any application in which a video program is transmitted to an end user in significantly less time than the program 's normal running time, and is recorded as received on any suitable medium, for later viewing by the end user;
- 1.14 "DVD TECHNOLOGY" means the technology used in the design, development and/or manufacture of Digital Versatile Disc players and/or recorders utilizing industry standard specifications, independent of the laser technology, the method of media production and the disc or system parameters. Such players and/or recorders may utilize industry standard specifications and will reproduce real-time recordings as well as playback Discs. Such recorders do not include digital recorders that record on a less-than-real time basis for later playback;
- 1.15 "EFFECTIVE" or "EFFECTIVENESS" or words of similar import means the characteristic of recording a Process-encoded input signal in such a way that it seriously degrades the recorded signal to produce a

picture, the entertainment value of which is destroyed. Subject to the foregoing, one means of determining whether the Effectiveness requirements have been met would be to ascertain:

- 1.15.1. for the AGC System, that Recording Devices will react to the AGC signal such that, when a program has been Copy Protected with the AGC process, a Recording Device will create copies of the program which, when played back, display a reduction in their video signal amplitude of at least 65%. More specifically, a standard color bar signal containing 100% peak white, and measuring 1 volt peak-to-peak from sync tip to peak white, when Copy Protected according to the latest published AGC process specifications, should be reduced to 350 millivolts or less as measured from sync tip to peak white, when recorded and played back. [Note that the AGC pulses cycle in amplitude between zero and 117 IRE units. The reduction to 350 millivolts peak-to-peak of the recorded video level should be measured while the AGC pulses are at maximum level.];
- 1.15.2. for Colorstripe, that a Recording Device will be considered to have met the Effectiveness criteria for Colorstripe, if, on playing back a Colorstripe-protected video program which was recorded on the Recording Device used for such play back, any one or more of the following effects is produced:
 - 1.15.2.1 a complete inversion of the color phase of the chroma on those lines which began with a Colorstripe-modified colorburst;
 - 1.15.2.2 a complete loss of chroma on the active portion of those lines following a Colorstipe-modified colorburst;
 - 1.15.2.3 a complete or intermittent loss of chroma throughout at least 50% of the visible image (if intermittent, the chroma should be missing not less than 50% of the time in any 10 second interval); or
 - 1.15.2.4 any other form and level of degradation to which Macrovision in its sole and absolute discretion agrees in writing;
- 1.15.3. Licensee may satisfy the requirements for Effectiveness herein by incorporating into its Recording Devices circuitry which will detect a modified signal as

described in the AGC System and/or Colorstripe and, upon doing so, stop recording.

1.15.4. Attachment 8 sets out the pertinent test criteria by which Licensee may verify the responsiveness of its VCR circuitry for the purpose of determining Effectiveness;

1.16 "EFFECTIVE DATE" means the date entered in the preamble of this Agreement;

1.17 "LICENSEE" means ViAlta.com, Inc. and its Subsidiaries;

1.18 "MACROVISION" means Macrovision Corporation;

1.19 "METHOD CLAIMS" means claims 1-13 of U.S. Patent No. 4,631,603, claims 1-7 of U.S. Patent No. 4,577,216, and claims 1-8 of U.S. Patent No. 4,819,098, foreign counterparts thereof having a first filing date prior to April 14,2007, as well as reissues, continuations, continuations-in-part, divisions, patents of improvements, patents of addition and inventor certificates thereof, and all patent applications for related improvements filed prior to April 14, 2007;

1.20 "PERSONAL VIDEO RECORDER" means a stand-alone, real-time video recording appliance containing a Device, having both analog video input and output ports, which digitize the analog input for recording in a digital format on a removable or non-removable recording medium (other than a Digital Cassette or a Disc) with subsequent output as analog video;

1.21 "PLAYABLE" and "PLAYABILITY" means the characteristic of not displaying materially degraded pictures from signals containing the Process, including color bars and active program material. The ideal playability requirement for an anticopy process requires that a skilled observer, viewing a variety of typical and worst case images on a large representative sampling of TV models in use, should be unable to determine whether copy protection is turned on or not. In this context, worst case images are those most likely to produce visible artifacts for the particular copy protection system in question. For the purposes of this Agreement, compliance with the Playability requirements of the Agreement will be determined largely by objective measurement criteria, but in light of the impossibility of including every possible situation under an

objective measurement umbrella, Licensee is required to adhere to a subjective indicator of playability also. The subjective indicator, from which the objective measurements are derived, is as follows: the TV model in question, when displaying copy protected images, should not produce any artifacts as a result of the copy protection which could cause critical consumers to complain. Without limiting the generality of the foregoing, Playability will be deemed to have been achieved when:

1.21.1. with respect to the AGC System,

- 1.21.1.1 Skew Errors. The horizontal phase lock loop shall have recovered from any disturbance caused by the pseudo-sync pulse component of the AGC process such that the first active line of each field shall be offset horizontally by no more than 200 nanoseconds from its correct position. Subsequent lines shall have smaller offsets in a smoothly diminishing manner. Also, the offset error profile on alternate fields shall differ by no more than 10%;
- 1.21.1.2 Clumping errors. The black level clamping circuits shall have recovered from any disturbance caused by the pseudo-sync/AGC pulse pairs, such that the blanking error on the first active line of each field shall be within 2 IRE unit of its correct value, and subsequent lines shall have smaller errors in a smoothly diminishing manner. Also, the error profile on alternate fields shall differ by no more than 0.5 IRE units to avoid flicker. This measurement should be carried out when the AGC pulses are at maximum amplitude;
- 1.21.1.3 Gain Errors. The gain of the luminance or chrominance channels of the TV set shall change by no more than 1% when the AGC pulses are cycled between maximum and minimum amplitude;
- 1.21.1.4 Vertical Jitter. Any vertical jitter caused by the interaction of the pseudosync pulses and the vertical sync circuits of the TV set shall be less than 0.05% of picture height; and
- 1.21.1.5 Retrace Blanking. TV sets should have adequate blanking to ensure the absence of

1.21.2. with respect to Colorstripe,

- 1.21.2.1 RGB amplitude Errors. The demodulated RGB signals shall exhibit no more than a 0.5% amplitude differential between lines with modified colorburst and lines with normal colorburst, measured using 75% color bars. Field to field (30Hz) changes of this differential should be less than 0.1%. This measurement may either be made differentially between tube grids and cathodes, or directly on the color difference signals with appropriate scaling;
- 1.21.2.2 Saturation Changes. The amplitude of the demodulated color difference signals shall change by no more than 1% when the Colorstripe process is cycled on and off;
- 1.21.2.3 Phase Changes. The phase of the regenerated color subcarrier shall change by no more than 1 degree when the Colorstipe process is cycled on and off; and
- 1.21.2.4 Luminance artifacts. The separated luminance signal shall exhibit no amplitude variations in excess of 0.25% on lines with modified colorbursts as compared to lines with normal colorburst.

1.22 "PROCESS" means Macrovision's proprietary Analog Protection System ("APS") in which the video signal is modified by:

1.22.1. the AGC System, or

1.22.2. the AGC System and Colorstripe, as more particularly described in Attachments 1A and 1B;

1.23 "PRODUCT", sometimes individually referred to herein as a Player or a Recorder, means one or more of the following:

- 1.23.1 a Disc player which incorporates the Device, and an analog video output port and associated control software, and which is offered for sale or intended to be offered for sale by Licensee to consumers, directly or indirectly, for purposes of play back of real-time Discs; or
- 1.23.2 Disc recorder which incorporates the Device, and an analog video output port and associated control software, and which is offered for sale or intended to be offered for sale by Licensee to consumers, directly or indirectly, for purposes of play back and/or recording of real-time Discs; or
- 1.23.3 a digital video tape recorder which incorporates the Device, and an analog video output port and associated control software, and which is offered for sale or intended to be offered for sale by Licensee to consumers, directly or indirectly, for purposes of recording and/or playback of real-time Digital Cassettes, and includes digital video tape recorders as well as camera/recorder ("camcorders" combinations containing analog video output or input ports; or
- 1.23.4 a DVD ROM drive and/or a circuit board or other associated circuitry which incorporates or utilizes the Device and an analog video output port and associated control software, and

which is offered for sale or intended to be offered for sale by Licensee to consumers, directly or indirectly, for purposes of play back of real-time Discs;

- 1.23.5 any future product incorporating the Device which emulates the functionality of any of the foregoing; provided that any question of interpretation as to whether any such product actually constitutes a Product for the purposes of this definition will be broadly construed in favor of providing copy protection to Rights Holders;

- 1.24 "RECORDING DEVICE" means any consumer-type analog video recorders, including camcorders, and/or consumer-type analog television-video recorder combinations which Licensee or

affiliates manufactures or sells under its own brand names after the Effective Date;

- 1.25 "RIGHTS HOLDER" means an owner of program rights to any material to be recorded on a Disc or a Digital Cassette. Rights Holders will be under individual licenses from Macrovision to activate the Process by encoding or embedding codes onto a copy-protected Disc or Digital Cassette during the mastering and/or manufacturing of the Disc or Digital Cassette;
- 1.26 "SECURITY STANDARDS" means the features Licensee must include in the design of the Player or Recorder to reasonably ensure that the Apparatus cannot readily be compromised, activated or deactivated by an unauthorized party, as specified in Attachment 2;
- 1.27 "SET TOP DECODER" means a digital video decoder which contains a Device and which enables consumers to receive television broadcasts or transmissions of pay-per-view programming over cable, direct broadcast satellite, telephone lines or by other means;
- 1.28 "SUBSIDIARY" means any entity in which the majority of shares entitled to vote for the election of directors is owned or directly or indirectly controlled by a party hereto, for as long as such ownership or control exists;
- 1.29 "TECHNOLOGY" means Macrovision's proprietary technology embodying the Apparatus Claims (but not the Method Claims), the technology specified in Attachments 1A, 1B, 2 and 3, related trade secrets, know-how, and show-how, and all related improvements developed by Macrovision in the future, necessary to enable a reasonably competent manufacturer to design, develop and/or manufacture Products which will allow application of the Process to the analog output of a Player or a Recorder and which will allow detection of the analog copy protection signal on the analog input of a Recorder, but expressly excludes the technology used for activation of the Adaptive Control of the Process;
- 1.30 "TERRITORY" means the countries in which Macrovision has relevant patents, as listed in Attachment 4. Macrovision, upon the written request of Licensee, will consider in good faith the addition of individual nations to the Territory on a nation-by-nation basis; and
- 1.31 "TRIGGER BITS" means those Analog Protection System (APS) trigger bits, to control the application of the Process within a Product the function of which is to control the application of the Process within a Product.

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2. GRANT OF RIGHTS/PAYMENTS

- 2.1 GRANT. For valuable consideration, and subject to the terms and conditions of this Agreement, Macrovision grants to Licensee, and Licensee hereby accepts from Macrovision, the following royalty-free, indivisible, non-exclusive and non-transferable rights to use the Technology to:
- 2.1.1. purchase the Device from Authorized Component Suppliers;
 - 2.1.2. incorporate in the Territory, or have incorporated in the Territory on a subcontract basis for the benefit of Licensee, the Device within one or more Products; and
 - 2.1.3. use, import, offer for sale, sell and distribute Products worldwide, for use in implementing the Process with program material which has been Copy Protected under agreement with Macrovision, directly or indirectly to consumers solely under Licensee's own brand names; provided that Licensee also has the worldwide right to physically dispose of defective Product after it has been destroyed.

Macrovision also agrees not to assert its rights against Licensee for Licensee's manipulation or passing of the Trigger Bits by way of a software function.

- 2.2 FIELD OF USE RESTRICTIONS. Licensee acknowledges that Macrovision is granting and Licensee is receiving under this Agreement only those rights expressly set out in this Agreement and no other rights or licenses, express, implied or by estoppel. Without limiting the generality of the foregoing, this Agreement grants no rights whatsoever with respect to less-than-real-time applications, pay-per-play Discs and related hardware, Set Top Decoders and Product/Set Top Decoder combinations, Personal Video Recorders and Product/Personal Video Recorder combinations, and Products manufactured in combination with other digital devices. Licensee expressly acknowledges that its right to offer for sale, sell and distribute Products incorporating the Device directly or indirectly to consumers is restricted solely to allowing such consumers to utilize such Products to play program material Copy Protected under an agreement with Macrovision (which restricted use Licensee will incorporate into its Product manuals).

2.3 OEM'S. Agreement is not applicable by itself to situations in which Licensee proposes to build Product on an original equipment manufacturer (OEM) basis for third party suppliers who market such Products under their own brand names, and no rights to sublicense the Technology are granted hereunder. In addition to this Agreement, a separate non-assertion agreement between Macrovision and Licensee substantially in the form attached hereto as Attachment 7 will be required in such instances, and all such third party suppliers who will sell or otherwise distribute more than five thousand (5,000) Products in any calendar year, directly or indirectly to consumers, under their own brand names, must execute a license agreement with Macrovision under Macrovision's then current license terms, prior to receiving shipment of Product from Licensee. However, provided that Licensee has entered into the separate non-assertion agreement with Macrovision, Licensee may sell a limited number of Macrovision-certified Products to non-licensed third parties on an OEM basis pursuant to the terms of such non-assertion agreement. Macrovision will negotiate the required nonassertion agreement and third party license agreements in good faith. Parties desiring to acquire nonMacrovision capable DVD equipment from Licensee on an OEM basis are not required to obtain a license from Macrovision.

2.4 FEES APPLICABLE. Notwithstanding Section 2.1, Licensee will pay to Macrovision a license fee in the amount of thirty-thousand U.S. dollars (\$30,000.00) which is payable upon execution of the Agreement by Licensee. In addition, throughout the term of this Agreement, Licensee will pay to

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Macrovision an ongoing annual license fee of fifteen-thousand U.S. dollars (\$15,000.00) on each anniversary of the Effective Date unless, for any given year, Licensee produces or has produced for it less than one hundred (100) items comprising Products, in which event the annual fee will be five thousand dollars (\$5,000.00). If following the Effective Date Licensee chooses to enter the Display Device and/or Recording Device business, then, notwithstanding Section 2.1, Licensee will choose (and notify Macrovision in writing of such choice), prior to shipping any such products for revenue, whether or not it will comply with both Sections 4.3 and 4.4 of this Agreement. If Licensee chooses not to comply with either Section 4.3 or 4.4, as applicable, then the following additional fees will apply:

2.4.1. ADDITIONAL UP-FRONT FEE. Licensee will pay to Macrovision, in addition to the license fees referred to in section 2.4 hereof, a license fee of one hundred thousand U.S. dollars (\$100,000.00), payable thirty (30) days after the twelve-month anniversary of the Effective Date; and

2.4.2. PRODUCT ROYALTY FEES. Licensee will pay to Macrovision a Product Royalty Fee equal to five U.S. dollars (\$5,000.00) or two percent (2%) of Licensee 's wholesale price to its distributors, whichever is greater, for each Product sold by Licensee from the inception of this Agreement until such time as Licensee becomes compliant. All Product Royalty Fees are payable to Macrovision within thirty (30) days after the close of each calendar quarter in which such Product is sold.

In the event that Licensee chooses to become compliant with Sections 4.3 and 4.4 of this Agreement subsequent to fees becoming payable under this Section, Licensee will not be relieved of its obligation to pay any fees which have accrued prior to such time as Licensee actually becomes compliant.

2.5 PAYMENT TERMS. Each royalty payment due to Macrovision under Section 2.4, if any, will be accompanied by a written statement substantially in accordance with Attachment 6, specifying the amount of payment due Macrovision and the means of calculation thereof. Each statement will be certified as true and correct by an officer of Licensee. Interest will be due on any late payment at the rate of eighteen percent (18%) per annum or the maximum rate permitted under applicable law, whichever is less, from the due date of such payment until the date of actual payment.

2.6 BILLING ADDRESS. Licensee's billing address for the purposes of this Agreement, if applicable, is:

48401 Fremont Blvd
Fremont, Ca 95538
Attention: Tai Nguyen
Tel: (510) 492-1775
Fax: (510) 492-1800

2.7 AUDIT RIGHTS. Whether or not this Agreement commences as or becomes a royalty-bearing agreement, Macrovision will have the right during the term of this Agreement and for one (1) year thereafter to have an independent certified public accounting firm review or audit Licensee records for the purpose of certifying compliance with this Agreement. All audits will be at Macrovision's expense and conducted during regular business hours, and begun upon at least one (1) week's prior notice. If

the audit reveals that any payments due to Macrovision have been understated by more than five percent (5%), or that Licensee has otherwise materially breached this Agreement, then, without limiting any other rights which Macrovision may have in respect thereof, Licensee will

reimburse Macrovision for the cost of the audit. Any discrepancy in the amounts paid will be corrected within ten (10) days of the written notice of the official results of the audit being delivered by the auditor.

3. DESIGN REQUIREMENTS/CERTIFICATION AND COSTS

- 3.1 DESIGN AND DEVELOPMENT OF PRODUCTS. Licensee will design and develop the Product to properly incorporate the Technology in accordance with Attachments 1A, 1B, 2 and 3. Macrovision will have no responsibility for the design, development, manufacture and distribution of Products. Licensee further agrees and acknowledges that the design, development, manufacture, and integration of the Technology into a Product will be at Licensee's sole expense.
- 3.2 ADAPTIVE CONTROL. Licensee will be solely responsible for implementation from a software and hardware perspective of the Adaptive Control of the Process and the Device. Macrovision will not provide to Licensee any software or hardware component related to Adaptive Control, or any specification therefor, and Licensee will be solely responsible for providing (or obtaining from third parties) the necessary adaptive control capability within the DVD or DVCR format. Licensee acknowledges that the Product specification developed by Macrovision provides for Adaptive Control, but that Authorized Component Suppliers are free to implement Adaptive Control in a unique manner which may result in Adaptive Control differences from one Authorized Component Supplier to another.
- 3.3 CERTIFICATION PROCESS. Prior to shipment of the initial item constituting a Product hereunder to any customer (including OEM customers), Licensee will furnish such initial Product and its product manual to Macrovision at Licensee's sole expense, and will coordinate with Macrovision the time period required for the testing and approval thereof. Licensee will not ship any Product or New Product until such item has been tested and approved by Macrovision and Macrovision has provided Licensee with a certificate evidencing such approval. Subsequent Product

shipments do not require testing prior to shipping, however, throughout the term of this Agreement, Macrovision may request that Licensee provide up to three (3) representative samples of each Product, even if such Product has already been tested and certified by Macrovision. For purposes of this Agreement, a New Product means any Product which i) contains a Device manufactured by a different manufacturer, ii) which uses different firmware or microcontroller code to control the Device, iii) which uses new navigator software which manipulates the Trigger Bits, or iv) which incorporates changes to the filtering of the analog signal. A Product will also require recertification if it was validated for only one TV standard and subsequently will be deployed in an area with a different TV standard. Licensee agrees to promptly respond* to technical questions raised by Macrovision which arise as a result of such testing or which relate to variances from Attachments 1A, 1B, 2 and 3 of this Agreement or the Security Standards, and agrees to discuss such matters with Macrovision at Macrovision's facility in Sunnyvale, California as may be reasonably necessary. Licensee agrees that it shall be the Licensee's ongoing responsibility to design and manufacture all Products such that they meet the requirements of Attachments 1A, 1B, 2 and 3 of this Agreement and the Security Standards.

4. ADDITIONAL TERMS

4.1 ACTIVATION/USAGE OF TECHNOLOGY INTO DVD TECHNOLOGY AND/OR DVCR TECHNOLOGY. For the purposes of this Agreement:

4.1.1. it is assumed that a mechanism by which a Disc and/or a Digital Cassette can be encoded with a part of the Process and/or have the digital bit stream marked in such a manner that it

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will activate the Apparatus and add the Process to the analog output of the Product exists and is available to Licensee and/or Rights Holders;

4.1.2. a Rights Holder will determine if a particular Disc or Digital Cassette is to be Copy Protected;

4.1.3. the Apparatus will be "off" (i.e., no Process output) unless a Disc or Digital Cassette has been encoded for copy protection and/or has copy protection embedded codes; and

4.1.4. Licensee agrees that only Macrovision can authorize usage of the Process or encoding or embedding of Process codes or Process activation codes onto Discs and Digital Cassettes.

4.2 UTILIZATION OF TECHNOLOGY. Licensee will incorporate the Technology in each DVD player, DVD recorder, DVD ROM drive and DVD-related card, circuit board or reference design which it produces or has produced for it. Nothing in this Agreement prohibits Licensee from also incorporating any other form of anticopy technology, whether existing now or in the future, into its Products, or from incorporating the Technology into DVD players, DVD recorders, DVD ROM drives and DVD-related cards or circuit boards which do not have the capability to decrypt digitally encrypted video discs.

4.3 RECORDING DEVICE RESPONSE TO TECHNOLOGY. Licensee represents and warrants to Macrovision that as of the Effective Date, Licensee does not manufacture or have manufactured for it any items which constitute Recording Devices. Licensee will promptly notify Macrovision in writing in the event that it commences business as a manufacturer or seller of Recording Devices. If during the term of this Agreement Licensee manufactures or has manufactured for it any Recording Devices, then Licensee will use its best efforts, in accordance with this provision, to ensure that its Recording Devices be responsive to Revision 6.1 and 7.1.D1 (or, at Licensee's option, higher) of the Process by stopping recording or recording a Process-encoded input signal in such a way that it is Effective. In particular, Licensee will not alter the design of any Recording Device (including but not limited to changes to the luminance AGC system or color processing) in a manner that would reduce the Effectiveness of the response to the Process as described above. Licensee will either stop selling and manufacturing all such Recording Devices that are not responsive to the Process in a way that is Effective or alter the design (including but not limited to changes to the luminance AGC system or color processing) of such non-responsive Recording Devices so as to render them Effective. Licensee will indicate in writing to Macrovision its actions taken in this regard. This Section 4.3 shall not apply to Recording Devices manufactured and/or distributed for sale to consumers within the United States of America.

4.4 DISPLAY DEVICE PLAYABILITY WITH MACROVISION ANTICOPY SIGNAL. Licensee represents and warrants to Macrovision that as of the Effective Date, Licensee does not manufacture or have manufactured for it any items which constitute Display Devices. Licensee will promptly notify Macrovision in writing in the event that it commences business as a manufacturer or seller of Display Devices. If during the term of this Agreement Licensee

manufactures or has manufactured for it any Display Devices, Licensee, in accordance with the terms of this Section, will ensure that all such Display Devices be Playable with Revision 6.1 and 7.1.D1 (or higher at Licensee's option) of the Process. Macrovision will provide the information necessary in its reasonable opinion to support Licensee in this effort. Additionally, Licensee will not design Display Devices, or implement designs in future Display Devices, in a manner which has the effect of reducing the Effectiveness of the Process when displaying an analog signal to which the Process has been applied. If prior to May 1, 1999, the interindustry forum to resolve Playability issues has been formed as contemplated in the Joint Explanatory Statement of the Committee of the Conference for the Digital Millennium Copyright

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Act of the Second Session of the 105th United States Congress (H. R. 2281), then the requirements of this Section 4.4 will be suspended for so long as such inter industry forum remains available to resolve such Playability issues. Licensee understands that the Joint Explanatory Statement contemplates the establishment of an inter industry forum to resolve Playability issues on a worldwide basis which may arise in the future in relation to either revisions to the technical specifications for the Process or the development of new consumer technologies and products. Licensee acknowledges that prior to the Effective Date, the Process was the subject of extensive testing of existing display device technologies which testing included all or virtually all of the major consumer electronics manufacturers, and that this testing resulted in modifications of the specifications (which modifications are incorporated in Revision 7.1.D1) to assure that the Process does not produce noticeable adverse effects on the normal display of content that is protected utilizing the Process. Accordingly, Licensee further acknowledges that it is on notice of the existence of the Process and its technical specifications and should be able to design its products to avoid any adverse effects. Macrovision has agreed to cooperate in the inter industry forum, however, Licensee accepts that Macrovision will not be responsible for resolving future Playability issues with respect to existing display device technologies unless such issues are the result of changes to the technical specifications for the Process made by Macrovision.

4.5 PROCESS ATTRIBUTES. Licensee will not make any representations

about the Apparatus, its effectiveness and attributes that are contrary to any written representations provided by Macrovision. Licensee will instruct its distributors to similarly limit representations made with respect to the Technology.

4.6 LIQUIDATED DAMAGES. If Licensee fails to comply with Section 4.2 herein, or, having elected to comply with Sections 4.3 and 4.4 herein, fails to comply with one or both such Sections, then the parties agree that, as a realistic assessment of damages suffered by Macrovision and not by way of penalty, Licensee will pay to Macrovision in the form of liquidated damages the greater of the following amounts:

4.6.1. an amount equal to one hundred thousand U.S. dollars (\$100,000.00) plus two-percent (2%) of the wholesale value of all DVD player and DVCR product, whether or not containing the Technology, which Licensee manufactures and makes available for sale; or

4.6.2. five hundred thousand U.S. dollars (\$500,000.00).

4.7 CONSEQUENTIAL DAMAGES. Notwithstanding anything contained in this Agreement, Licensee will be liable to Macrovision for consequential damages resulting from Licensee's failure to fully comply with the provisions of Section 4.2, or, after having elected to comply therewith, Sections 4.3 or 4.4, whether as a result of its negligence or intentional conduct.

4.8 VIDEO CAPTURE CARDS. If video capture cards which Licensee manufactures or has manufactured are capable of capturing the video stream for output at a resolution greater than 240 by 320, and more than thirty (30) fields per second (equivalent to fifteen (15) frames per second), then Licensee will take one of the following actions, at its choice:

4.8.1. design and manufacture such video capture cards such that they are "AGC aware", i.e., they stop their recording process when a Macrovision pseudo sync pulse and/or AGC pulse is detected in the vertical blanking interval; or

4.8.2. pass the copy protection signal through the Product transparently (i.e., no analog-to-digital conversion) by hardware means to the analog output port; or

4.8.3. digitize the incoming signal and, if the AGC System or Colorstripe signal is present, apply the Trigger Bits to a Device that activates the AGC System or the combination of the AGC System and Colorstripe, for the purpose of copy protecting any analog output;

provided, however, that with respect to existing video capture cards Licensee will not be required to implement the terms of this provision until eighteen (18) months after the Effective Date, and that this Section shall not apply to video capture cards which do not accept or process NTSC, PAL or SECAM video input.

5. SUPPORT AND IMPROVEMENTS

- 5.1 MACROVISION SUPPORT. When requested by Licensee, Macrovision will provide, at no cost to Licensee, telephone, fax and email technical support (and in-person support at Macrovision's offices in Sunnyvale, California) and documentation reasonably necessary to assist Licensee and Licensee's chosen Authorized Component Suppliers with the implementation of the Technology in its Products. Macrovision will provide reasonable support to Licensee regarding the use of the Process and its Playability and Effectiveness with TVs and VCRs, and evaluate problems and use reasonable efforts to resolve problems reported to Licensee by consumers.
- 5.2 IMPROVEMENTS. Macrovision will apprise Licensee of any improvements in the Apparatus and pursuant to the terms of Section 1.5 ("Apparatus Claims") such improvements shall automatically be granted to Licensee pursuant to the terms of Section 2 (Grant of Rights/Payments) at no charge to Licensee other than those set forth in Section 2.4 (Fees Applicable) and Macrovision's reasonable non-development related costs for services requested in writing by Licensee, which costs may include (but are not limited to) documentation, travel, meal and lodging expenses. During the term of this Agreement, and pursuant to the terms of Section 2 (Grant of Rights/Payments) Licensee may purchase any improved version of the Device that is made available by Authorized Component Suppliers.
- 5.3 COMPLETE DOCUMENTATION. Macrovision represents that the specifications contained in Attachments 1A, 1B, 2, and 3 are complete to enable a reasonably competent manufacturer to design, develop and/or manufacture Products which will allow application of the Process to the analog output of a Player or a Recorder and which will allow detection of the analog copy protection signal on the analog input of a Recorder, but exclude the technology used for activation of the Adaptive Control of

the Process, and may be updated from time to time to reflect improvements to the Process.

6. PROPRIETARY RIGHTS

- 6.1 PROPRIETARY PROPERTY OF MACROVISION. Licensee recognizes and agrees that the Apparatus, the Process and the Technology are the proprietary property of Macrovision and that Licensee has no right to sublicense the Apparatus, the Process or the Technology to any party and has only such limited rights as are expressly granted by Macrovision to Licensee hereunder. Macrovision represents and warrants that it owns the Technology and has the right and power to enter into this Agreement with Licensee. Macrovision represents that it has no knowledge as of the Effective Date of any material claims by third parties that the Process as implemented using the Device infringes any third party patents.
- 6.2 PRODUCT NOTICE. Licensee will display notices as set forth in Attachment 5 on Products and associated collateral material, as required to appropriately protect Macrovision's intellectual property

rights in the country of Product distribution. Such notices may be in a language appropriate to the countries where the Product will be distributed.

7. QUALITY CONTROL

Licensee will employ such industry quality standards with respect to use of the Technology as would be expected of a reasonably competent manufacturer of electronic devices of the nature and complexity of the Products, and will design, develop and manufacture Products and any related operating system software capable of using the Apparatus in compliance with the Security Standards and Adaptive Control. Licensee will coordinate any quality control questions which may arise in respect of Adaptive Control with the relevant Rights Holders. Licensee further agrees to employ such quality standards with respect to integration of the Device into Products. Licensee will be solely responsible for carrying out adequate tests of the Process variables specified in Attachments 1A and 1B for the purpose of confirming that the design has been implemented properly and that the Licensee's Product correctly incorporates the Technology.

8. INDEMNIFICATION

8.1 INDEMNIFICATION OF MACROVISION. Licensee will indemnify Macrovision against any and all third party claims of infringement, including patent, copyright and trade secret claims which may be asserted against Macrovision on the grounds and to the extent that any modifications to the Apparatus or the Technology made by Licensee infringes upon such third party 's patent(s), copyright(s) or trade secret rights. Licensee will have the right to defend against, control the defense of, and settle any action based upon any such claims. Licensee will bear all costs and expenses, including reasonable attorney' fees, incurred in connection with the defense of any such claims or as a result of any settlement made or judgment reached on the basis of such claims. Macrovision will:

- 8.1.1. promptly notify Licensee in writing if and when such a claim is made;
- 8.1.2. furnish such information and assistance as Licensee may reasonably request in connection with the defense, settlement or compromise of such claim;
- 8.1.3. not enter into any settlement of any such claim without Licensee 's prior written consent; and
- 8.1.4. allow Licensee to direct the defense of and/or handle such suit, claim or proceeding.

9. DISCLAIMER OF WARRANTIES AND REVISION LEVEL OF TECHNOLOGY

9.1 THE TECHNOLOGY IS LICENSED UNDER THIS AGREEMENT BY MACROVISION TO LICENSEE "AS IS". NOTHING IN THIS AGREEMENT WILL BE CONSTRUED AS A WARRANTY OR REPRESENTATION THAT:

- 9.1.1. LICENSEE WILL BE ABLE TO MAKE OR INCORPORATE THE DEVICE OR THE PRODUCT WITHOUT INFRINGING THE INTELLECTUAL PROPERTY RIGHTS OF THIRD PARTIES;
- 9.1.2. LICENSEE WILL BE ABLE TO SUCCESSFULLY MAKE OR INCORPORATE THE APPARATUS, DEVICE OR PRODUCT; OR
- 9.1.3. LICENSEE IS GRANTED ANY RIGHTS BY IMPLICATION, ESTOPPEL OR OTHERWISE EXCEPT THE RIGHTS EXPRESSLY SET FORTH HEREIN.

9.2 SPECIFIC REVISION OF TECHNOLOGY. LICENSEE RECOGNIZES THAT THE LEVEL OF REVISION OF THE PROCESS AND SPECIFICATIONS INCLUDED IN THIS AGREEMENT IS REVISION 7.1.D1 AND THAT THE REVISION LEVEL TO BE INCORPORATED AT THE TIME OF MANUFACTURE MAY BE DIFFERENT FROM THE REVISION LEVEL OF ATTACHMENTS 1A, 1B, 2 AND 3 AT THE TIME OF EXECUTION OF THIS AGREEMENT. LICENSEE FURTHER RECOGNIZES THAT THE REVISION LEVEL OF ATTACHMENTS 1A, 1B, 2 AND 3 MAY BE THE SUBJECT OF INDUSTRY STANDARDIZATION OF THE FORMAT SPECIFICATIONS FOR THE DVD TECHNOLOGY AND THE DVCR TECHNOLOGY AND MAY BE CHANGED FROM REVISION 7.1.D1. LICENSEE ASSUMES FULL RESPONSIBILITY FOR INCLUDING THE APPROPRIATE REVISION LEVEL SPECIFICATIONS IN PRODUCTS PRODUCED BY LICENSEE.

10. LIMITATION OF LIABILITY

10.1 IN NO EVENT WILL MACROVISION BE LIABLE FOR LOSS OF PROFITS, LOSS OF BUSINESS, COST OF PROCURING SUBSTITUTE GOODS OR SERVICES, OR ANY INDIRECT, SPECIAL, CONSEQUENTIAL OR INCIDENTAL DAMAGES OR ANY NATURE OR KIND WHATSOEVER, ARISING OUT OF OR RELATING TO THIS AGREEMENT.

10.2 IN NO EVENT WILL MACROVISION'S LIABILITY IN CONNECTION WITH THE TECHNOLOGY, THE DEVICE, THE PROCESS, OR THIS AGREEMENT EXCEED THE AMOUNTS PAID BY LICENSEE TO MACROVISION UNDER THIS AGREEMENT. THIS LIMITATION WILL APPLY TO ALL CAUSES OF ACTION IN THE AGGREGATE, INCLUDING, BUT NOT LIMITED TO, BREACH OF CONTRACT, BREACH OF WARRANTY, MACROVISION'S NEGLIGENCE, STRICT LIABILITY, PROPRIETARY RIGHTS INFRINGEMENT, MISREPRESENTATION AND ALL OTHER TORTS.

11. TERM AND TERMINATION

11.1 TERM. This Agreement will commence on the Effective Date and will continue in effect for a period of five (5) years thereafter, unless earlier terminated in accordance with its terms. Subject to such earlier termination, this Agreement will automatically renew for two (2) three-year renewal terms unless, within ninety (90) days prior to the commencement of a renewal term, Macrovision is unable to produce at Licensee's written request at least one letter from a major Hollywood film studio indicating such studio's desire to have the Technology continue to be implemented in industry DVD players and/or related DVD products. At the end of the second renewal term, Licensee is free to choose not to renew this Agreement.

11.2 TERMINATION FOR BREACH. Other than with respect to Sections 4.2, 4.3, 4.4 and 11.3, in the event of a material breach by one party in the performance of its duties, obligations or undertakings under this Agreement, the other party will have the

right to give written notice to the breaching party advising such party of the specific breach involved. If the breaching party will not have remedied such breach within thirty (30) days after such notice, the other party will have the right, in addition to any other rights and remedies it may have, to terminate this Agreement immediately upon written notice to the defaulting party of such default with reasonable supporting documentation specifying in detail the nature of such default. The thirty (30) day cure period is not applicable to breaches of confidentiality or improper disclosure of proprietary technology or other trade secrets.

- 11.3 TERMINATION FOR NON-PAYMENT. If Licensee fails to make any payment due to Macrovision under this Agreement, and has failed to remedy such default within ten (10) days following written notice

from Macrovision, then Macrovision will have the right, in addition to any other rights and remedies it may have, to immediately terminate this Agreement upon written notice to Licensee.

- 11.4 TERMINATION FOR NON-USE. In the event Licensee does not offer Products for sale in the normal course of its business within two years of the Effective Date of this Agreement, or fails to offer Products for sale in the normal course of its business for any period thereafter during the term of this Agreement that exceeds one year, then Macrovision, at its option, may terminate this Agreement by giving written notice to Licensee.

- 11.5 EFFECT OF TERMINATION. Upon the termination of this Agreement:

11.5.1. all rights granted to Licensee under this Agreement immediately will terminate and absolutely no interest whatsoever in any of such rights will thereafter remain in Licensee; and

11.5.2. Licensee will immediately cease the manufacture and/or distribution of Products.

- 11.6 CONTINUING LIABILITY. No termination of this Agreement will in any manner whatsoever release, or be construed as releasing, any party from any liability to the other arising out of or in connection with a party's breach of or failure to perform any

covenant, agreement, duty or obligation contained herein prior to the date of such termination.

12. CONFIDENTIAL INFORMATION

12.1 CONFIDENTIALITY. Macrovision and Licensee (on behalf of themselves and their respective officers, employees and agents) each agree to use all reasonable efforts to keep secret and confidential, and not to use or permit the use of for any purpose whatsoever, during the term of this Agreement and for a period of three (3) years thereafter, all written confidential information (including the terms of this Agreement) acquired from the other party ("Confidential Information"), whether prior to or during the term of this Agreement, except as disclosure or use of such Confidential Information is permitted by this Agreement or by a writing signed by the parties hereto. This confidentiality requirement will extend to Licensee's relationships with subcontractors and/or distributors. To that end, without limiting the generality of the foregoing, Macrovision and Licensee each agree that the Technology technical information provided by Macrovision and all information concerning the Security Standards is deemed Confidential Information for the purpose of this Section. The parties will promptly confirm any oral disclosure of Confidential Information in writing, and cause all other written materials and other documents containing Confidential Information to be plainly marked by the disclosing party to indicate the secret and confidential nature thereof, and to prevent the unauthorized use or reproduction thereof. Information which is labeled as "Trade Secret" will be protected for so long as such information remains secret and confidential. The obligations imposed upon each party hereto by this Section will not apply with respect to any information which:

- 12.1.1. is or becomes published or otherwise is generally available to the public other than through the fault of the receiving party; or
- 12.1.2. is publicly released in writing by the disclosing party; or
- 12.1.3. is lawfully obtained from a third party without a duty of confidentiality; or
- 12.1.4. is known to the receiving party prior to such disclosure and was not improperly obtained; or

12.1.5. is, at any time, developed by the receiving party independently of any such disclosure from the disclosing party.

The disclosure of Confidential Information shall not be precluded if such disclosure is in response to a valid order of a court or other governmental body or is otherwise required to be disclosed by law; provided, however, that the receiving party shall first have given written notice to the disclosing party so that the disclosing party may seek an appropriate protective order.

12.2 EQUITABLE REMEDIES. Each party acknowledges that in the event it breaches any confidentiality provision of this Agreement, the other party may be irreparably harmed and may not have an adequate remedy at law. In the event either party commits or threatens to commit any such breach, the other party will be entitled to injunctive relief to enforce its rights hereunder, without being required to post any bond or other security.

12.3 SURVIVAL OF OBLIGATIONS. The obligations of the parties under this Section 12 will survive, in accordance with the terms hereof, the term and termination of this Agreement and will remain in full force and effect regardless of the cause of any termination.

13. EXPORT CONTROLS AND EXCISE TAXES

13.1 FOREIGN CONTROL REGULATIONS. The export regulations of the U.S. Department of Commerce prohibit, except under special validated license, the export from the United States of technical data relating to certain commodities unless the exporter has received certain written assurances from the foreign importer. In order to facilitate the exchange of information in accordance with this Agreement and in conformity with the regulations relating to the exportation of technical data, Licensee agrees to fully comply with all relevant regulations of the U.S. Department of Commerce and to assure that no violation of such regulations or of the authorizing legislation therefor will occur.

13.2 EXCISE TAXES. The parties anticipate that there will not be any sales tax, use tax, or other excise tax imposed upon the transactions set forth in this Agreement. However, in the event that any sales tax, use tax, or other excise tax is imposed upon Macrovision by any jurisdiction with respect to such transactions, Licensee will reimburse Macrovision the amount of any and all such taxes paid by Macrovision (excluding taxes on the income of Macrovision) to the fullest extent permitted by law.

- 14.1 GOVERNING LAW. This Agreement will be governed by and interpreted in accordance with the laws of the State of California, as applied to an agreement between two residents of California to be wholly performed in California.
- 14.2 ARBITRATION. Except for claims regarding ownership or infringement of the Technology, the Apparatus Claims, the Method Claims and/or the Process, any dispute between the parties arising out of, or relating to, the validity, construction, interpretation or performance of this Agreement that cannot be resolved amicably shall be submitted to binding arbitration, to be held in San Francisco, California, USA, in accordance with the rules of the American Arbitration Association. Any such arbitration proceeding shall be conducted before an arbitration panel composed of three (3) arbitrators; each party shall designate one (1) arbitrator, and the two (2) arbitrators so designated shall designate the third arbitrator. The decision and award of the arbitrators shall (i) be in writing, (ii) state the reasons therefor, (iii) be based solely on the terms and conditions of this Agreement, as interpreted under the laws of the State of California, USA, and (iv) shall be final and binding upon the parties. The decision and award of the arbitrators in any such arbitration

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proceeding may be enforced in any court of competent jurisdiction. However, nothing in this provision shall prohibit either party from seeking injunctive relief as expressly provided for herein.

- 14.3 RIGHTS CUMULATIVE. Each and all of the various rights, powers and remedies of the parties will be considered to be cumulative with and in addition to any other rights, powers and remedies which such parties may have at law or in equity in the event of breach of any of the terms of this Agreement. The exercise or partial exercise of any right, power or remedy will neither constitute the exclusive election thereof nor the waiver of any other right, power or remedy available to such party.
- 14.4 NOTICES. All notices, consents or demands of any kind which either party to the Agreement may be required or may desire to serve on the other party in connection with this Agreement will be in writing, will be deemed complete upon delivery and will be

delivered by facsimile with a confirming copy sent by mail, personal service or by registered or certified mail, return receipt requested, deposited in the United States mail with postage thereon fully prepaid, addressed to the party at the address or facsimile number set forth in the initial paragraph of this Agreement. Service of any such notice, consent or demand so made by mail will be deemed complete on the date of actual delivery as shown by the addressee's registry or certification receipt. Each party hereto may from time-to-time, by notice in writing served upon the other as aforesaid, designate a different mailing address or facsimile number or a different person to which such notices or demands are thereafter to be addressed or delivered.

- 14.5 SEVERABILITY. If any of the provisions of this Agreement are held to be void or unenforceable, the parties agree that such determination will not result in the nullity or unenforceability of the remaining portions of this Agreement. The parties further agree to replace such void or unenforceable provisions of this Agreement with valid and enforceable provisions which will achieve, to the extent legally permissible, the economic, business and other purposes of the void or unenforceable provisions.
- 14.6 COUNTERPARTS. This Agreement may be executed in separate counterparts, and by facsimile, each of which will be deemed an original, and when executed, separately or together, will constitute a single original instrument, effective in the same manner as if the parties had executed one and the same instrument.
- 14.7 ENTIRE AGREEMENT. This Agreement is intended by the parties to be the final expression of their agreement and constitutes and embodies the entire agreement and understanding between the parties hereto and constitutes a complete and exclusive statement of the terms and conditions thereof, and will supersede any and all prior correspondence, conversations, negotiations, agreements or understandings relating to the same subject matter.
- 14.8 AMENDMENTS. No change in, modification of or addition to the terms and conditions contained herein will be valid as between the parties unless set forth in a writing which is signed by authorized representatives of both the parties and which specifically states that it constitutes an amendment to this Agreement.
- 14.9 WAIVER. No waiver of any term, provision, or condition of this Agreement, whether by conduct or otherwise, in any one or more instances, will be deemed to be, or be construed as, a further or continuing waiver of that term, provision or condition or any

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- 14.10 ASSIGNMENT. Neither party hereto will assign this Agreement or any rights or obligations hereunder to any party without the prior written consent of the other party hereto, such consent not to be unreasonably withheld. However, either party may assign this Agreement in total to a successor in interest.
- 14.11 BINDING ON SUCCESSORS AND ASSIGNS. Subject to the restrictions of Section 14.10 (Assignment), this Agreement and all of its terms, conditions and covenants are intended to be fully effective and binding, to the extent permitted by law, on the successors and permitted assigns of the parties hereto.
- 14.12 CAPTIONS. Captions are provided in this Agreement for convenience only and they form no part of this Agreement and are not to serve as a basis for interpretation or construction of this Agreement, nor as evidence of the intention of the parties hereto.
- 14.13 DISCLAIMER OF AGENCY. Nothing contained in this Agreement is intended or will be construed so as to constitute the parties to this Agreement as partners or joint venturers or as agents of each other. Neither party will have any express or implied right or authority to assume or create any obligations on behalf of or in the name of the other party or to bind the other party in any contract, agreement or undertaking with any third party.
- 14.14 PUBLICITY. Macrovision and Licensee agree that from time-to-time it will be beneficial to both parties to issue press releases and other public announcements concerning benefits arising from the manufacture and sale of Products. Each party agrees to submit for mutual approval any press release which involves the other party and the Technology, such approval not to be unreasonably withheld. Macrovision may at any time "line list" Licensee as an authorized Product Licensee. Likewise, Licensee may publicly disclose that it is a Macrovision-authorized Product Licensee.
- 14.15 ATTORNEYS FEES: In any dispute, action, litigation, or arbitration between the parties arising out of or related to this Agreement, the prevailing party therein shall be entitled to have its attorneys' fees, reasonable expenses, related litigation costs and costs of suit (if any) paid by the

nonprevailing party.

14.16 EFFECTIVENESS. This Agreement shall be effective only when signed by all parties.

14.17 AMBIGUITIES. Each party and its counsel have participated fully in the review and revision of this agreement.

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Any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in interpreting this agreement.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto as of the Effective Date.

MACROVISION CORPORATION

VIALTA.COM, INC.

By: /s/ [ILLEGIBLE]

By /s/ JAI NGUYEN

Name: Chris Wilcox

Name: Jai Nguyen

Title: Dir., Contracts

Title: V.P. of Business Development

Date: 5/1/00

Date: 4-4-00

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NOTICE

ATTACHMENTS 1 - 3 OF THIS AGREEMENT ARE THE LATEST VERSION OF THE

"SPECIFICATIONS OF THE MACROVISION ANTITAPING PROCESS FOR DIGITAL PLATFORMS"

IF YOU DO NOT HAVE A COPY OF THE SPECIFICATIONS DOCUMENT,
PLEASE CALL THE CONTRACTS ADMINISTRATIVE ASSISTANT AT (408) 743-8462.

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THIS LEASE is dated the 20th day of January, 2000.

[OFFICE LEASE]

LEASE

B E T W E E N:

235 INVESTMENTS LIMITED

[Landlord]

- and -

VIALTA.COM, INC.

[Tenant]

Floor: 11TH

Suite: 1102

THIS LEASE is dated the 20th day of January, 2000.

B E T W E E N:

235 INVESTMENTS LIMITED

("Landlord")

OF THE FIRST PART;

- and -

VIALTA.COM, INC.

("Tenant")

OF THE SECOND PART;

BASIC TERMS

The following are certain basic terms, which are part of, and are referred to in subsequent provisions of this Lease. Any conflict or inconsistency between these basic terms and the provisions contained elsewhere in this Lease will be resolved in favour of the provisions contained elsewhere in the Lease:

- (a) Leased Premises (Section 1.3)
 - (i) Rentable Area: 6,297 square feet
 - (ii) Floor: 11th
 - (iii) Suite No.: 1102

The approximate location of the Leased Premises is outlined in red on the floor plan attached as Schedule "B".

- (b) Term (Section 1.1)

The period commencing on the date (the "Commencement Date") which is the 1st day of MARCH, 2000; and expiring FOUR (4) years after the Commencement Date being FEBRUARY 29, 2004 (or the last day of the calendar month in which the Commencement Date occurs, if the Commencement Date is not the first day of a calendar month).

(c) Use (Section 6.1)

The Leased Premises are to be utilized for computer website development and administration office.

(d) Basic Rent (Section 3.2)

An annual rate per square foot of the Rentable Area of the Leased Premises as follows:

Period Rate

March 1, 2000 to February 29, 2004	\$7.50 per square foot
------------------------------------	------------------------

(e) Advance Rent (Section 3.3)

Twenty Thousand Forty Four Dollars and Four Cents (\$20,044.04).

(f) Security Deposit (Section 12.6)

(g) Letter of Credit (Section 13.13)

(h) Address of Landlord (Section 13.9)

2 Carlton Street
Suite 909
Toronto, Ontario
M5B 1J3

(i) Address of Tenant (Section 13.9)

235 Yorkland Boulevard
Suite 1102
Toronto, Ontario
M2J 4Y8

(j) Name and Address of Indemnifier (Appendix "A")

ARTICLE 1

Term, Additional Areas and Leased Premises

Section 1.1 Grant and Term. The Landlord leases to the Tenant, and the Tenant leases from the Landlord, the Leased Premises, to have and to hold for the Term and upon the terms and conditions and subject to the limitations set out in this Lease.

Section 1.2 Use of Additional Areas. The Tenant's use of the Leased Premises includes the non-exclusive right of the Tenant and persons having business with the Tenant in common with the Landlord and all others entitled, to the use of the Common Areas and Facilities, subject to the terms of this Lease.

Section 1.3 Leased Premises. As soon as reasonably possible after the Commencement Date and, if applicable, after any relocation, rearrangement, alteration, addition or reduction of or to the Leased Premises in accordance with this Lease, the Architect shall calculate the actual Usable Area and Rentable Area of the Leased Premises in accordance with Schedule "D".

ARTICLE 2 Construction and Fixturing

Section 2.1 Construction of the Leased Premises. The Landlord will, at its expense, complete the work designated as "Landlord's Work" in accordance with the provisions of Schedule "C" and the Tenant will, at its expense and within the time period set out herein, complete the work designated as "Tenant's Work" in Schedule "C". The Tenant acknowledges that minor modifications or alterations may be made by the Landlord to the Leased Premises from that shown on Schedule "B" during the completion of the Landlord's Work.

The Tenant will examine the Leased Premises before taking possession and unless the Tenant serves the Landlord with written notice specifying any deficiencies or defects within ten (10) days after taking possession, the Tenant will be deemed to have examined the Leased Premises and to have agreed that they are in good order and that the Landlord's Work has been satisfactorily completed.

Section 2.2 Construction Delays. The Tenant acknowledges that if there is a delay which results in the Landlord's Work not being completed on schedule, the Tenant shall and does hereby release the Landlord from all costs, expenses, claims, losses or damages suffered or incurred as a result of such delay whether or not caused, or to the extent contributed to, by the acts, omissions or negligence of the Landlord or those for whom it is at law responsible.

Section 2.3 Architect. If there is a dispute as to (i) completion of the Landlord's Work or the Tenant's Work, or (ii) the availability of the Leased Premises for possession by the Tenant, or (iii) the Rentable or Usable Area of the Leased Premises, the opinion of the Architect will be final and binding.

ARTICLE 3 Rent

Section 3.1 Covenant to Pay. The Tenant will pay Basic Rent and

Additional Rent without any set-off, deduction, abatement or demand. All Rent will be paid by the Tenant to the Landlord at the Landlord's address set out in Paragraph (h) of the Basic Terms and will be payable in lawful Canadian money.

Section 3.2 Basic Rent.

(a) The Tenant will, from and after the Commencement Date and thereafter throughout the Term, pay to the Landlord as Basic Rent, in equal consecutive monthly installments in advance on the first day of each calendar month of each Lease Year, an annual sum based upon the annual rate specified in Paragraph (d) of the Basic Terms.

(b) Whenever the Usable Area and the Rentable Area of the Leased Premises are calculated by the Architect pursuant to Section 1.3, the Basic Rent and Additional Rent shall be adjusted retroactively to the Commencement Date.

(c) The Tenant shall deliver to the Landlord at the beginning of each Lease Year or at any other time during the Term if requested by the Landlord, one or more series of monthly post-dated cheques for such Rent as is payable by equal monthly installments under this Lease and such Lease Year or other period as is requested by the Landlord.

(d) At the Landlord's request, in lieu of the post-dated cheques referred to in Section 3.2(c), the Tenant will participate in a pre-authorized payment plan whereby the Landlord will be authorized to debit the Tenant's bank account each month or from time to time for such Rent as is payable by equal monthly installments under this Lease. Within five (5) days after such presentation by the Landlord, the Tenant will sign a form of application to the Tenant's bank, on the Landlord's standard form, to give effect to the foregoing.

Section 3.3 Advance Rent. The sum specified in Paragraph (e) of the Basic Terms as Advance Rent shall be held by the Landlord without interest by the Landlord and applied on account of the Basic Rent first falling due and payable under this Lease.

Section 3.4 Rent Past Due. If the Tenant fails to pay any Rent when due then, in addition to all other rights and remedies available to the Landlord, the unpaid amounts shall, upon demand from the Landlord, bear interest from the due date to the date of payment of an annual rate of four (4) percentage points above the Prime Rate, calculated and compounded monthly.

ARTICLE 4

Taxes, Operating Costs and Utilities

Section 4.1 Taxes Payable by Landlord. The Landlord will, subject to Sections 4.2, 4.3 and 4.4 pay all Taxes directly to the taxing authority. The Landlord may, nevertheless, defer payment of Taxes to the fullest extent permitted by law, so long as it diligently prosecutes any contest or appeal of Taxes.

Section 4.2 Taxes Payable by Tenant.

(a) If there are separate real property tax bills and separate real property assessment notices for the Leased Premises and the non-leasable areas of the Building and the Lands, subject to Section 4.2(b), the Tenant shall (i) pay to the Landlord or to the taxing authorities if the Landlord so directs, and discharge during the Term and within the times provided for by the taxing authorities, all Taxes that are levied, rated, charged or assessed from time to time, respectively, against the Leased Premises or any part thereof, on the basis of a separate real property tax bill and separate assessment notice rendered by any lawful taxing authority; (ii) within ten (10) days after receipt of such separate real property tax bill and separate assessment notice, provide a copy thereof to the Landlord; (iii) promptly deliver to the Landlord receipts evidencing the payment of all such Taxes and such other information in connection therewith as the Landlord reasonably requires; and (iv) pay in accordance with Section 4.5, its Proportionate Share of all Taxes levied, rated, charged or assessed against the Building and the Lands including, without limitation, the Tenant's portion (as determined by the Landlord) of such Taxes levied or assessed against the Common Areas and Facilities but excluding all portions thereof designated or intended by the Landlord to be leased to tenants.

(b) If there are not separate real property tax bills and separate real property assessment notices for the Leased Premises and the non-leasable areas of the Property or, in any event, if the Landlord so elects, the Tenant shall not be required to pay the amounts described in Section 4.2(a) but shall pay monthly in advance or otherwise as the Landlord directs, in accordance with Section 4.5, its Proportionate Share of all Taxes allocated by the Landlord to the Property, including the Common Areas and Facilities but excluding any Taxes allocated by the Landlord to the Storage Areas which are recovered from tenants in the Building pursuant to clauses in their respective leases requiring such contribution.

(c) If the Landlord determines that as a result of the construction or installation of any Leasehold Improvements or Fixtures in the Leased Premises or the use of the Leased Premises or the particular location of the Leased Premises within the Building, the Tenant's Proportionate Share of Taxes payable in accordance with Section 4.2(b) does not accurately reflect the proper share of the Taxes which should in the Landlord's opinion be payable by the Tenant, the Landlord may increase or decrease the Tenant's Proportionate Share of Taxes and the Tenant will pay such adjusted amount rather than the Tenant's Proportionate Share as set out in Section 4.2(b).

(d) If the Tenant elects to have the Leased Premises or any part thereof assessed for separate school taxes, the Tenant shall pay to the Landlord as Additional Rent, as soon as the amount of such separate school taxes

is ascertained, any amount by which the amount of separate school taxes exceeds the amount which would otherwise have been payable for school taxes had such election not been made.

Section 4.3 Business Taxes and Other Taxes of the Tenant.

(a) The Tenant will pay to the lawful taxing authorities or to the Landlord, as the Landlord directs, all Business Taxes imposed in respect of the Tenant's business and assets in, or use, enjoyment or occupancy of, the Leased Premises and the Building or any portion

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thereof. The Tenant shall promptly deliver to the Landlord receipts evidencing payment of all such Business Taxes and such other information in connection therewith as the Landlord reasonably requires.

(b) The Tenant shall give the Landlord at least fifteen (15) days' notice of its intention to appeal against the imposition of any Business Taxes. The Tenant will deliver to the Landlord such security for any increase in Taxes, Business Taxes or other taxes payable hereunder as the Landlord requires to ensure payment thereof. The Tenant will indemnify and hold the Landlord harmless from and against payment of all loss, costs, charges and expenses occasioned by or arising from all Taxes and Business Taxes payable by the Tenant and any taxes which may in future be levied in lieu of or in addition to such amounts or which may be assessed against any rentals payable pursuant to this Lease in lieu of such amounts, whether against the Landlord or the Tenant, including, without limitation, any increase in Taxes or Business Taxes arising directly or indirectly out of any appeal or contestation by the Tenant.

(c) The Tenant will pay to the Landlord (acting as agent for the taxing authority if applicable) or directly to the taxing authority (if required by the applicable legislation) in the manner specified by the Landlord, the full amount of all goods and services taxes, sales taxes, value-added taxes, multi-stage taxes, business transfer taxes, and any other taxes imposed on the Tenant in respect of the Rent payable by the Tenant under this Lease, or in respect of the rental of premises by the Tenant under this Lease (collectively and individually, "G.S.T."). Sales Taxes so payable by the Tenant will be: (i) calculated by the Landlord in accordance with the applicable legislation; (ii) paid by the Tenant at the same time as the amounts to which the Sales Taxes apply are payable to the Landlord under the terms of this Lease (or upon demand at such other time or times as the Landlord from time to time determines); and (iii) considered not to be Rent, despite anything else in this Lease, but the Landlord will have all of the same remedies for and rights of recovery with respect to such amounts as it has for non-payment of Rent under this Lease or at law.

Section 4.4 Tenant's Contribution to Operating Costs. The Tenant will

pay to the Landlord, in accordance with Section 4.5, its Proportionate Share of Operating Costs. The Tenant acknowledges that Operating Costs may be allocated by the Landlord to the Office Area, the Retail Area, the Storage Areas and other components of the Building and that the Landlord may adjust Operating Costs or the denominator of the Tenant's Proportionate Share fraction in accordance with current practices relevant to multi-use commercial developments on a basis consistent with the benefits derived by the tenants of each component of the Building and having regard to the nature of the particular costs and expenses being allocated.

Section 4.5 Payment of Taxes and Operating Costs.

(a) The amounts payable by the Tenant under Sections 4.2 and 4.4 (and under Section 4.3, if applicable) may be estimated from time to time by the Landlord and commencing on the Commencement Date, the Tenant shall pay the Landlord such estimated amounts in equal consecutive monthly installments in advance, on the first day of every month. The Landlord may from time to time revise any of such estimates and in such event the Tenant's monthly payments will be adjusted accordingly beginning with the first day of the month after the Landlord notifies the Tenant of the revised estimate and the adjusted monthly amounts.

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(b) As soon as reasonably practicable after the end of the period for which the estimated payments have been made, and at the expiry of the Term, the Landlord will determine and advise the Tenant in writing of the exact amounts payable by the Tenant under Sections 4.2 and 4.4 (and under Section 4.3, if applicable). If necessary, an adjustment will be made between the parties within fifteen (15) days after the Tenant has been advised of the actual amounts. The Tenant shall have the right to audit the Landlord's records, at the Tenant sole cost and expense, if a bona fide dispute arises.

Section 4.6 Charges for Utilities.

(a) If there are separate meters (other than check meters) for any Utilities consumed in the Leased Premises, the Tenant will pay directly to the suppliers of such Utilities, the charges therefor.

(b) The cost of Utilities, excluding the amounts payable by the Tenant under Section 4.6(a), shall (A) if there is a meter for Utilities consumed only by the tenants on the floor on which the Leased Premises is located, be apportioned by the Landlord, on an equitable basis, amongst the tenants on the floor; or (B) be included in Operating Costs; except for (i) any additional charges for the supply of any excess Utilities in the Leased Premises, which shall be payable by the Tenant pursuant to Section 4.6(c), and (ii) the cost of Utilities supplied for climate control services after Normal Business Hours, which shall be payable by the Tenant pursuant to Section

5.2(a) (i) .

(c) In addition to but without duplication of the amounts payable by the Tenant under Section 4.6(a) and (b) and Section 5.2(a) (i), if the Landlord requires, the Tenant shall pay:

(i) an additional charge for the supply to and usage of any excess Utilities in the Leased Premises, as reasonably determined by the Landlord and equally applied;

(ii) all costs incurred by the Landlord in determining or allocating the additional charge for Utilities including, without limitation, professional engineering and consulting fees; and

(iii) an administration fee of fifteen percent (15%) of the costs and charges referred to in subparagraphs (i) and (ii) above.

(d) The Tenant shall pay for the cost of any metering which the Tenant requests the Landlord to install in the Leased Premises, or which the Landlord wishes to install in the Building, for the purpose of assisting in determining the consumption of any Utility in the Leased Premises.

(e) The Landlord shall not be liable for, nor have any obligation with respect to any interruption, cessation or failure in the supply of any Utilities, services or systems in, to or serving the Building or the Leased Premises, whether or not supplied by the Landlord.

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ARTICLE 5

Building - Control and Services

Section 5.1 Control of the Building.

(a) The Landlord will operate and maintain the Building as would a prudent landlord of a similar office building having regard to size, age and location.

(b) The Building is at all times subject to the exclusive control, management and operation of the Landlord. The Landlord has the right with respect to such control, management and operation to:

(i) obstruct or close off all or any part of the Property for the purpose of maintenance, repair or construction;

(ii) employ all personnel necessary for the operation and management of the Building, either directly or through a third party property management company;

(iii) construct other improvements and make alterations, additions, subtractions or re-arrangements, build additional storeys and construct facilities adjoining or proximate to the Building, including underground tunnels and pedestrian walkways and overpasses, and to relocate or rearrange the Leased Premises from the location shown on Schedule "B", or to make alterations, additions or reductions to the Leased Premises. The Landlord must make the Tenant "whole", move the Tenant to similar premises with similar finishes and pay for all costs associated with the relocation, rearrangement, alterations, additions or reductions outlined above.

(iv) do and perform such other acts in and to the Building, as, in the use of good business judgment, the Landlord determines to be advisable for the more efficient and proper operation of the Building;

(v) control, supervise and regulate the Parking Garage in such manner as the Landlord determines time to time, including, without limitation, imposing charges or rates as may from time to time be determined by the Landlord for the use of the Parking Garage.

(c) The Landlord is not subject to any liability, nor is the Tenant entitled to any compensation or abatement of Rent as a result of the Landlord's exercise of its rights conferred under Section 5.1.

Section 5.2 Landlord's Services.

(a) During the Term, the Landlord shall provide, as required, the following services and utilities upon the terms and subject to the conditions set out in Section 5.2(b):

(i) except during the completion of repairs, alterations or Leasehold Improvements, climate control for the Leased Premises shall be provided during Normal Business Hours, in order to maintain a temperature adequate for normal occupancy in accordance with the provisions hereof. If the Tenant requests the provision of climate control services to the

Leased Premises outside Normal Business Hours, the Landlord will provide such services to the Tenant, at the Tenant's expense and at the rate determined by the Landlord which shall be payable by the Tenant upon demand;

(ii) when reasonably necessary from time to time, the Landlord shall cause the floors in the Leased Premises to be cleaned or vacuumed, the windows to be cleaned, the trash to be removed and the desks, tables and other furniture of the Tenant to be dusted;

(iii) water (if applicable) and electricity in such

quantities as the Landlord, in its sole discretion, determines to be reasonable in compliance with applicable laws, shall be provided to the Leased Premises. If the Tenant's equipment requires such Utilities in excess of the quantities normally supplied by the Landlord to similar premises in the Building and the Tenant requests the Landlord to supply such excess quantities, facilities to supply such excess quantities may be provided by the Landlord at the sole expense of the Tenant, if such excess quantities are available, provided that:

(1) the Landlord may nevertheless refuse to supply such excess Utilities if the supplying of additional facilities or excess Utilities may affect the operation or aesthetics of the Building, or Structure, or in any way reduce the efficiency of existing electricity, water or other Utilities supplied to the Building; and

(2) the actual cost of supplying such additional facilities or excess Utilities shall be paid by the Tenant to the Landlord upon demand and in accordance with Section 4.6, together with the amounts described in Sections 4.6(c)(ii) and (iii); and

(iv) elevator service shall be provided by the Landlord during Normal Business Hours, for use by the Tenant in common with others and subject to the Rules and Regulations and the conditions set out in Section 5.2(b).

(b) The provision by the Landlord of the services and utilities referred to in Section 5.2 shall be subject to the following terms and conditions:

(i) the Landlord shall have no responsibility or liability for failure to supply climate control services when stopped or prevented from so doing by strikes or other causes beyond the Landlord's reasonable control;

(ii) any use of the Leased Premises not in accordance with the design standards of the Building or any arrangement of partitions which interferes with the normal operation of the climate control system for the Building may require changes or alterations in the system or the ducts. Any changes or alterations so required, if such changes can be accommodated by the Landlord's equipment, shall be made by the Landlord, at the Tenant's expense, and only after such changes or alterations have received the Landlord's prior written consent. If installation of partitions, equipment or fixtures by or on behalf of the Tenant (other than the partitions installed as part of the Landlord's Work described in Schedule "C" of this Lease) necessitates the rebalancing of any climate control equipment serving the Leased Premises, such work will be performed by the Landlord at the Tenant's expense, together with an amount equal to fifteen percent (15%) of the total expense thereof, representing the Landlord's overhead and administrative costs, and shall be payable by the Tenant upon demand;

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(iii) the Landlord shall use reasonable efforts to adjust and balance the climate control systems as soon as reasonably possible after the Commencement Date;

(iv) the Landlord will not be responsible for any inadequacy in the performance of the climate control system serving the Leased Premises if (1) the occupancy of the Leased Premises exceeds one (1) person for every one hundred (100) square feet of the Rentable Area of the Leased Premises, or (2) the window coverings or exterior windows are not kept fully closed while the windows are exposed to direct sunlight. If the use of the Leased Premises does not accord with the aforementioned requirements and changes in the climate control system are desirable or necessary to accommodate such use, the Landlord may make such changes at the Tenant's expense, payable as set out in Section 5.2(b) (ii);

(v) temporary interruption of elevator service may be required during periods when repairs, replacements, alterations or Leasehold Improvements are being made; and

(vi) the Landlord shall not be liable and the Tenant agrees to release and hold harmless the Landlord from any claim, loss or damage resulting from (1) any interruption or disruption of elevator service caused or contributed to by mechanical failure; (2) any failure by the Landlord to provide elevator service during any period of power interruption; (3) any cause beyond the control of the Landlord; or (4) the carrying out of any repairs, maintenance or replacements of the elevators.

Section 5.3 Tenant's Responsibilities. The Tenant will regulate those portions of the climate control equipment within and exclusively serving the Leased Premises so as to maintain such reasonable conditions of temperature and humidity within the Leased Premises as are determined by the Landlord and its Architect and engineers so that no direct or indirect appropriation of the heating, ventilating and air-conditioning from the Common Areas and Facilities occurs. The Tenant shall comply with such stipulations and with all Rules and Regulations of the Landlord pertaining to the operation and regulation of such equipment. If the Tenant falls to comply with such stipulations and the Rules and Regulations, the Landlord shall be entitled to take such steps as it deems advisable to correct such defaults (including, without limitation, entering upon the Leased Premises and assuming control of such equipment) without liability to the Tenant, and the Tenant will pay to the Landlord, upon demand, all costs and expenses incurred by the Landlord in so doing, together with an amount equal to fifteen percent (15%) of such costs and expenses, representing the Landlord's overhead and administrative costs.

ARTICLE 6

Use of the Leased Premises

Section 6.1 Use of the Leased Premises. The Leased Premises will be used solely for the purpose described in Paragraph (c) of the Basic Terms and for no other purpose.

Section 6.2 Conduct of Business.

(a) The Tenant will occupy the Leased Premises and commence its business operations in the Leased Premises and will thereafter throughout the Term continuously, actively and diligently conduct its business in the whole of the Leased Premises in a reputable and first-

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class manner. If the Landlord requests, the Tenant will immediately cease conducting any business in the Leased Premises which in the Landlord's reasonable opinion may harm or tend to harm the business or reputation of the Landlord or reflect unfavourably on the whole or any part of the Property, the Landlord or other tenants in the Building.

(b) The Tenant will not allow or cause any waste to be committed or injury to occur to the Leased Premises, the Leasehold Improvements or Fixtures or any other part of the Property, nor anything to be done in the Leased Premises or on the Property which may be or result in a nuisance or annoyance to other tenants or occupants of the Building. The Tenant will not allow or cause the Leased Premises or any part of it to be used for any business which, either directly or indirectly, involves the preparation, production or storage of any toxic or hazardous substances or materials (the "Contaminants") including, without limitation, any products of waste, asbestos, urea formaldehyde foam insulation, radon gas, PCBs or any other contaminant as defined in the Environmental Protection Act, R.S.O. 1980, c.141, as amended. The Tenant is not liable for any contaminants left on the Leased Premises by the previous tenants.

(c) The Tenant will not refer to the Building by any name other than that designated from time to time by the Landlord and the Tenant will use the name of the Building for the business address of the Tenant but for no other purpose.

Section 6.3 Observance of Law. The Tenant will, at its expense, and subject to Section 8.3:

(a) comply with all provisions or changes of law and other requirements of all governmental bodies which pertain to or affect the Leased Premises or require or govern the making of any repairs, alterations or other changes of or to the Leased Premises or the Tenant's use of it;

(b) obtain all necessary permits, licenses and approvals

relating to the use of the Leased Premises and the conduct of business therein, including, without limitation, those required under the applicable provincial or federal Business Corporations Act(s) and the Investment Canada Act; and

(c) comply with all reasonable directions given or regulations introduced by the Landlord or measures introduced by any governmental or quasi-governmental authority from time to time in the interests of waste recycling, environmental protection, energy conservation or the control of Operating Costs.

ARTICLE 7
Insurance and Indemnity

Section 7.1 Tenant's Insurance.

(a) Throughout the Term and any period that the Tenant occupies or is given possession of the Leased Premises, the Tenant shall, at its expense, take out and keep in full force and effect and in the names of the Tenant, the Landlord, the Owners and the Mortgagee as their respective interests may appear, the following:

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(i) "all risks" (including flood and earthquake) property damage insurance (containing disputed loss provisions) for the full replacement cost of all property located in the Building which is owned by the Tenant, or installed by or on behalf of the Tenant, or for which the Tenant is legally liable, including but not limited to Alterations, Fixtures and Leasehold Improvements;

(ii) broad form boiler and machinery insurance, if applicable, (containing disputed loss provisions) on a blanket repair and replacement basis with limits for each accident in an amount equal to the full replacement cost of all Leasehold Improvements and of all boilers, pressure vessels, air-conditioning equipment and other electrical apparatus owned or operated by or on behalf of the Tenant;

(iii) business interruption insurance with at least twelve (12) months indemnity in an amount sufficient to reimburse the Tenant for loss of earnings attributable to perils insured against under Sections 7.1(a) (i) and (ii);

(iv) comprehensive general liability insurance (containing severability of interests and cross-liability clauses) including personal injury, broad form contractual liability, owners' and contractors'

protective, contingent employers' liability, employers' liability, medical payments, products liability, completed operations, and non-owned automobile liability insurance, all with respect to the Leased Premises and the Tenant's use of the Common Areas and Facilities. Such policies shall be written on a comprehensive basis with inclusive limits of not less than Two Million Dollars (\$2,000,000.00) per occurrence or such higher limits as the Landlord or the Mortgagee may require from time to time;

(v) "all risks" tenant's legal liability insurance for the replacement cost value of the Leased Premises, including loss of use thereof; and

(vi) any other forms of insurance as the Landlord, acting reasonably, or the Mortgagee requires from time to time, in forms and amounts and for risks against which a prudent tenant would insure.

(b) The following terms and conditions are applicable to the insurance policies specified under Section 7.1(a):

(i) the policies specified under Sections 7.1(a) (i), (ii) and (iii) shall contain the Mortgagee's standard mortgage clause and may be subject to reasonable deductibles. If there is a dispute as to the full replacement cost, the Landlord's evaluation will prevail;

(ii) the policies specified under Sections 7.1(a) (i), (ii) and (iii) shall contain a waiver of any subrogation rights which the Tenant's insurers may have against the Landlord, the Owners and the Mortgagee and those for whom they are in law responsible, whether the damage is caused or contributed to by their act, omission or negligence;

(iii) all of the policies shall be taken out with insurers reasonably acceptable to the Landlord and in a form reasonably satisfactory to the Landlord;

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(iv) all of the policies shall be non-contributing with and only apply as primary and not as excess to any other insurance available to the Landlord, the Owners and the Mortgagee;

(v) all of the policies shall contain an acknowledgement by the insurers that the policy shall not be invalidated as respects the interests of the Landlord, the Owners and the Mortgagee by reason of any breach or violation of any warranties, representations, declarations or conditions contained in the policies; and

(vi) all of the policies shall contain an undertaking by the insurers to notify the Landlord, the Owners and the Mortgagee in writing not less than thirty (30) days prior to any material change, cancellation or termination.

The Tenant agrees to deliver to the Landlord certificates of insurance or, if requested by the Landlord, complete certified copies of policies, within thirty (30) days' after the placing of the required insurance. No review or approval of such insurance documentation by the Landlord shall derogate from or diminish the Landlord's rights or the Tenant's obligations contained in this Lease including, without limitation, those contained in Article 7.

(c) If there is damage or destruction to the Leasehold Improvements in the Leased Premises, the Tenant will use the full insurance proceeds received in respect of such damage or destruction for the sole purpose of repairing or restoring them. If there is damage to or destruction of the Building entitling the Landlord to terminate this Lease under Sections 9.1 or 9.2, then, if the Leased Premises have also been damaged or destroyed, the Tenant will pay the Landlord all of its insurance proceeds relating to the Leasehold Improvements.

Section 7.2 Increase in Insurance Premiums. If (a) the occupancy of the Leased Premises; (b) the conduct of business in the Leased Premises; or (c) any acts or omissions of the Tenant in the Leased Premises or in any other part of the Building results in any increase in premiums to the insurance carried by the Landlord with respect to any part of the Building, the Tenant will pay the increase in premiums within five (5) days after invoices for additional premiums are rendered by the Landlord. In determining whether the Tenant is liable for increased premiums and the amount for which the Tenant is responsible, a schedule issued by the organization that computes the insurance rate on the Property showing the components of the rate will be conclusive evidence of the items that make up the rate.

Section 7.3 Cancellation of Insurance. If any insurance policy in respect of any part of the Building is cancelled or threatened by the insurer to be cancelled, or the coverage reduced by the insurer by reason of the use and occupation of the Leased Premises and if the Tenant fails to remedy condition giving rise to cancellation, threatened cancellation or reduction of coverage within forty-eight (48) hours after notice by the Landlord, the Landlord may, at its option, either (a) exercise its rights of re-entry including termination under Article 12, or (b) at the Tenant's expense, enter upon the Leased Premises and remedy such condition.

Section 7.4 Loss or Damage. The Landlord and the Owners except for gross negligence are not liable for any death or injury arising from or out of any occurrence in, upon, at, or relating to the Building or damage to property of the Tenant or of others wherever located,

whether or not resulting from (a) the negligence of the Landlord or the Owners or those for whom they may in law be responsible; (b) the Landlord's failure to supply any services or utilities required by this Lease where the failure is beyond the Landlord's reasonable control; (c) the existence of any Contaminants which are or have been located, stored or incorporated in or on any part of the Building; or (d) the exercise by the Landlord of any of its rights under this Lease. Without limiting the generality of the foregoing, the Landlord and the Owners shall not be liable for any injury or damage to Persons or property resulting from fire, explosion, falling plaster, falling ceiling tile, falling ceiling fixtures and diffuser coverings, steam, gas, electricity, water, rain, flood, snow or leaks from any part of the Building, including pipes, sprinklers, appliances, plumbing works, roof, windows or the surface of any floor or ceiling of the Building or from any Lands adjoining the Building. In addition, the Landlord and the Owners shall not be liable for any damage to or destruction of any negotiable instruments, cash or other valuable property belonging to the Tenant or others and stored or otherwise contained in the Leased Premises. All property of the Tenant kept or stored on the Leased Premises or the Property will be so kept or stored at the risk of the Tenant only and the Tenant shall indemnify and save harmless the Landlord and the Owners from any claims arising out of any damages to such property including, without limitation, any subrogation claims by the Tenant's insurers. The intent of this Section is that the Tenant (and all other Persons having business with the Tenant) is to look solely to its insurers to satisfy any claim which may arise on account of death, injury, loss or damage, irrespective of its cause.

Section 7.5 Landlord's Insurance

(a) The Landlord shall at all times throughout the Term carry: (1) broad form boiler and machinery insurance on items owned by the Landlord (except property that the Tenant and other tenants of the Building are required to insure); (ii) insurance on the Building (excluding the foundations and excavations) and the equipment contained in or servicing the Building, against damage by fire and extended perils; (iii) public liability and property damage insurance with respect to the Landlord's operations in the Building; and (iv) other forms of insurance as would be carried by a prudent owner of a similar office building or considered advisable by the Landlord, the Owners or any Mortgagee.

(b) Notwithstanding the Landlord's Obligation to insure under Section 7.5(a) and any contribution by the Tenant to the cost of the Landlord's insurance premiums, (i) the Tenant is not relieved of any liability arising from or contributed to by its negligence or its willful acts or omissions, (ii) no insurable interest is conferred upon the Tenant under the Landlord's insurance policies, and (iii) the Tenant has no right to receive proceeds from the Landlord's insurance policies.

Section 7.6 Indemnification

The Tenant will indemnify and save harmless the Landlord and the Owners from and against all loss, claims, actions, damages, costs, liability and expense in connection with loss of life, personal injury, damage to property (including any portion of the Building and its equipment, machinery, services and Leasehold Improvements) or any other loss or injury arising from or out of this Lease, or any occurrence on the Property or any part thereof, or the Tenant's occupancy of the Leased Premises, or occasioned wholly or in part by any act or omission of the

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Tenant or by anyone permitted to be in the Leased Premises or the Building by the Tenant. If the Landlord or the Owners, without fault on their part, are made a party to any litigation commenced by or against the Tenant, then the Tenant will indemnify and save harmless the Landlord and the Owners from, and pay all expenses and reasonable legal fees incurred by the Landlord and the Owners in connection with the litigation. The Tenant will also pay all costs and legal fees (on a solicitor and client basis) incurred by the landlord in enforcing the terms, covenants and conditions in this Lease. The indemnity contained in this Section 7.6 shall survive the expiration or earlier termination of this Lease.

ARTICLE 8

Maintenance, Repairs and Alterations

Section 8.1 Maintenance and Repairs by the Landlord

(a) The Landlord will maintain and repair the Structure, of the Building and the mechanical, electrical, heating, ventilating, air-conditioning and other base building systems of the Building, as would a prudent owner of a similar building. Subject to Paragraph 23 of Schedule "F," the cost of such maintenance and repairs will be included in Operating Costs. However, if the Landlord is required, due to the business carried on by the Tenant, to make repairs or replacements to the Structure or any other part of the Building by reason of the application of laws, ordinances or other regulations of any governmental body, or by reason of any act, omission or default of the Tenant or those for whom the Tenant is in law responsible, then the Tenant will pay to the Landlord, upon demand, the total cost of those repairs or replacements plus fifteen percent (15%) of such cost, representing the Landlord's overhead and administrative costs.

(b) The Landlord will have the exclusive right to attend to the replacement of standard electric light bulbs, tubes and ballasts in the Leased Premises throughout the Term on the basis determined by the Landlord in accordance with good commercial practice. The Landlord, at its option, may

either include the cost of replacement in Operating Costs or require the Tenant to pay a monthly charge for such replacement (subject to adjustment based on actual costs) per bulb, tube and ballast together with an amount equal to fifteen percent (15%) of such cost, representing the Landlord's overhead and administrative costs. If the Landlord elects not to relamp and reballast on a scheduled basis, then the replacement of these standard electric light bulbs, tubes and ballasts in the Leased Premises will be undertaken by the Landlord at such time as they actually bum out and after notice from the Tenant that replacement is required. In that event, the cost of replacement and installation will be paid by the Tenant with the next monthly payment of Additional Rent, together with an amount equal to fifteen percent (15 %) of such cost, representing the Landlord's overhead and administrative costs.

Section 8.2 Maintenance and Repairs by the Tenant

(a) The Tenant will at all times, at its expense, maintain the whole of the Leased Premises and the Leasehold improvements including without limitation, all interior partitions, doors, plate glass (subject to Section 8.2(d)), electrical, lighting, wiring, plumbing fixtures and equipment and the heating, ventilating and air-conditioning systems and equipment

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within or exclusively serving the Leased Premises in a similar condition as received on the Commencement Date. The Tenant will make all needed repairs and replacements with due diligence and dispatch. Upon the Landlord's request or if required by any governmental or quasi-governmental authority, the Tenant will, at its expense, remove from the leased Premises any Contaminants which are or have been located, stored or incorporated in or on any part of the Leased Premises. The foregoing obligation to remove Contaminants by the Tenants shall survive the expiration of the Term or earlier termination of this Lease.

(b) Notwithstanding anything contained in this Lease, if any such repairs or replacements or any Alterations to the Leased Premises or to any Leasehold Improvements affect the Structure or any part of The electrical, mechanical, plumbing, heating, ventilating, air-conditioning, lighting or other base building systems of the Building, such work shall be performed only by the Landlord at the Tenant's sole cost and Expense. The Tenant shall pay to the Landlord, upon demand Landlord's costs relating to such repairs or replacements, including but not limited to the fees of any architectural and engineering consultants, plus a sum equal to fifteen percent (15 %) of such costs, representing Landlord's overhead and administrative costs.

(c) The Tenant will leave the Leased Premises in a reasonably neat and tidy condition at the end of each day in order that the Landlord's cleaning services may be performed.

(d) The Tenant will immediately advise the Landlord of any damage to the glass in or forming part of the exterior windows or storefronts of the Leased Premises and the Landlord will effect the necessary repairs and replacements. The cost of completing such repairs and replacements shall be included in Operating Costs unless the damage resulted from the negligence or willful act or omission of the Tenant, in which case the Tenant will pay to the Landlord, upon demand, the Landlord's costs relating to such repairs or replacements, plus a sum equal to fifteen percent (15%) of such costs, representing the Landlord's overhead and administrative costs.

(e) At the expiration or earlier termination of the Term, the Tenant will surrender the Leased Premises to the Landlord in as good-a condition as the Tenant is required to maintain them throughout the Term, reasonable wear and tear excepted.

(f) Notwithstanding anything contained in this Lease, if the Building or the Structure or any part thereof, or any equipment, machinery, facilities or improvements contained therein or made thereto, requires repair or replacement or becomes damaged or destroyed as a result of the negligence or willful act or omission of the Tenant or those for whom it is in law responsible, the Tenant will pay to the Landlord upon demand, the cost of the resulting repairs, replacements or alterations plus a sum equal to fifteen percent (15 %) of such cost, representing the Landlord's overhead and administrative costs.

(g) The Tenant shall immediately notify the Landlord of any condition requiring repair in, or which might cause damage to, the Leased Premises or the Building or any part thereof, whether or not the Landlord has any obligations with respect thereto.

Section 8.3 Landlord's Approval of the Tenant's Repairs

(a) The Tenant will not make any Alterations to any part of the Leased Premises without first obtaining the Landlord's written approval. The Landlord will not be required to consider any request for its approval until the Tenant has submitted to it details of the proposed work, including professionally prepared drawings if requested by the Landlord, and specifications conforming to good engineering practices. The Landlord shall be entitled to withhold its approval if, in its sole opinion, such Alterations might decrease the Market Rental value of the Leased Premises or are inconsistent or incompatible with the general design or quality of the Building. Any approval shall be conditional upon the Tenant delivering to the Landlord prior to the commencement of any such Alterations:

(i) evidence satisfactory to the Landlord that the Tenant has obtained, at its expense, all necessary consents, permits, licenses and inspections from all governmental and regulatory authorities having jurisdiction; and

(ii) security in an amount and form required by the Landlord, as an indemnification against construction liens, costs, damages and expenses resulting from such Alterations.

(b) All Alterations will be performed; (1) by competent workmen whose labour union affiliations are compatible with those employed by the Landlord and its contractors in the Building, (ii) at the Tenant's expense, (iii) in a good mid workmanlike manner; (iv) in accordance with the drawings and specifications approved by the landlord; and (v) subject to Section 8.2(b) and the reasonable regulations, controls and inspection of the Landlord.

(c) In addition to the Landlord's other rights and remedies under this Lease and at law, if the Landlord requires, the Tenant ,will at its expense promptly remove any Alterations made without the Landlord's approval or not made in accordance with the drawings and specifications approved by the Landlord, and restore the Premises to their previous condition.

Section 8.4 Removal and Restoration by the Tenant

(a) All Leasehold Improvements immediately become the property of the Landlord upon affixation or installation and will not be removed unless permitted or required by the Landlord. The Landlord has no obligation to repair, maintain or insure the Leasehold Improvements. The Tenant will, prior to the end of the Term, at its cost, remove all Fixtures and those Leasehold Improvements (NOT APPROVED BY THE LANDLORD) which the Landlord requires the Tenant to remove and will immediately repair any damage to the Leased Premises caused by their installation or removal. NOTWITHSTANDING THE ABOVE, THE TENANT WILL NOT BE OBLIGATED TO REMOVE ANY OF THE EXISTING IMPROVEMENTS IN THE LEASED PREMISES, AS OF THE DATE OF THIS AGREEMENT, PRIOR TO THE END OF THE TERM.

(b) The Tenant will, prior to the end of the Term, at its cost, deliver to the Landlord evidence (including any clearance certificates and demolition permits) satisfactory to the Landlord that there are no Contaminants located, stored or incorporated in or on any part of the Leased Premises, in accordance with all applicable legislation and safety requirements.

(c) The Landlord may, as it sees fit and without notice to the Tenant, immediately remove from the Leased Premises and store or dispose of all fixtures, Leasehold Improvements and Contaminants not removed by the Tenant as required under Section 8.2(a) and Sections 8.4(a) and (b). The Tenant shall pay to the Landlord, upon demand, all costs incurred by the Landlord in removing, storing or disposing of such Fixtures, Leasehold Improvements or Contaminants plus a sum equal to fifteen percent (15%) of such costs, representing the Landlord's overhead and administrative costs.

(d) The Tenant will effect any installation or removal of Fixtures, Leasehold Improvements or Contaminants, whether during or at the expiration of the Term, only at times prescribed by the Landlord and utilizing only elevators and other services designated by the Landlord, and the Tenant will immediately repair any damage caused to the Leased Premises or the Building or any part thereof by any such installation or removal, all at its expense.

(e) Any Fixtures not removed from the Leased Premises at the end of the Term, will at the Landlord's option, become the property of the Landlord (and, in such event, this paragraph shall have the effect of assigning the Tenant's right and title in such Fixtures to the Landlord) and may be removed from the Leased Premises and sold or disposed of by the Landlord in such manner as it deems advisable.

Section 8.5 Tenant to Discharge all Liens

(a) The Tenant will not allow or cause any construction or other liens or encumbrances in respect of materials supplied or work done or to be done by or on behalf of the Tenant or related to the Tenant's Work to be registered against or otherwise affect the Building, the Lands, the Leased Premises or any part thereof of the Landlord's, the Owners' or the Tenant's interest in the Leased Premises.

(b) If a lien or other encumbrance is registered against or otherwise affects the Building or the Leased Premises or the Landlord's, the Owners' or the Tenant's Interest therein, and the Tenant fails to discharge or cause any such lien or encumbrance to be discharged or removed within five (5) days after it is filed or registered, then the Landlord may, in addition to its other rights and remedies, discharge or remove the lien or encumbrance by paying the amount claimed plus any additional costs incurred by the Landlord into court or directly to the lien claimant and the Tenant will pay to the Landlord, upon demand, all costs (including the amount so paid and any legal costs and expenses) so incurred by the Landlord plus interest at an annual rate of four (4) percentage points above the Prime Rate, calculated and compounded monthly, and a sum equal to fifteen percent (15%) of such costs, representing the Landlord's overhead and administrative costs.

Section 8.6 Right of Entry

(a) The Landlord and its agents leave the right to enter the

Leased Premises at all reasonable times with at least 24 hours prior notice (and at any time in the event of an emergency), without affecting the Tenant's covenants, obligations or agreements under this Lease, to show them to prospective purchasers, tenants or mortgagees, and to supervise any work in or examine them or any portion of The Building and to obtain information for the

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determination of the Rentable Area or the Usable Area of the Leased Premises or for the preparation of plans in respect of any portion of the Building, and to make repairs, alterations or changes to the Leased Premises or the Building as are permitted or required to be performed by the Landlord under this Lease. For that purpose, the Landlord may take all required material into the Leased Premises, may have access to all ducts located under the floor or above the ceiling and to access panels to mechanical shafts, and may check, . calibrate, adjust or balance any controls or other parts of any heating, ventilating and air-conditioning equipment and facilities.

(b) If the Tenant is not personally present to open and permit an entry into the Leased Premises at any time when for any reason an entry therein is necessary or permissible, the Landlord or its agents may forcibly enter the same, without rendering the Landlord or such agents liable therefor, and without affecting the Tenant's covenants, obligations and agreements under this Lease. However, nothing in this Section 8.6 shall be construed to impose upon the Landlord any obligation for the care, maintenance or repair of the Leased Premises, or any part thereof, except as otherwise specifically provided in this Lease. The Tenant agrees that any entry by the Landlord upon the Leased Premises in accordance with this Section 8.6 is not a re-entry or a breach of any covenant for quiet enjoyment contained in this Lease or implied by law.

Section 8.7 Signs and Advertising

The Tenant will not allow or cause any notice, lettering or other sign to be erected or placed on any part of the outside of the Building or on the exterior or in the interior of the Leased Premises so as to be visible from the outside of the Leased Premises. The Landlord may prescribe a uniform pattern of identification signs for tenants to be placed in a location designed by the Landlord. The Landlord will install, at the Tenant's expense, a maximum of two (2) of the Landlord's standard tenant identification signs in accordance with the Landlord's design criteria, on or near the main door to the Leased Premises in the building directory and on the floor directory, and, at the Landlord's option, at other locations on the floor on which the Leased Premises are located. At the expiration or earlier termination of this Lease, the Tenant will remove all signs, pictures, advertisements, notices, letterings or decorations from the Leased Premises at the Tenant's expense and will promptly repair all damage caused by their installation or removal. The Landlord will provide a directory board in the main lobby of the Building in a location designated by the Landlord in which event the Tenant's name may be displayed therein and, if

so displayed, the Tenant shall pay to the Landlord the cost of such display and any ongoing cost thereof.

Section 8.8 Tenant Not to Overload Facilities

The Tenant will not install any equipment which will exceed or overload the capacity of any utility, electrical or mechanical facilities in or serving the Leased Premises and the Tenant will not bring into the Leased Premises or install any utility, electrical or mechanical facility or service of which the Landlord does not reasonably approve. The Tenant agrees that if any installed by the Tenant requires additional utility, electrical or mechanical facilities, the Landlord may if they are available, elect to install them in accordance with plans and specifications to be approved in advance in writing by the Landlord. The Tenant will pay to the Landlord, upon demand, the total cost incurred by the Landlord in connection with any such installation plus a

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sum equal to fifteen percent (15%) of such cost, representing the Landlord's administrative and overhead costs.

Section 8.9 Tenant Not To Overload Floors

The Tenant will not bring upon the Building or the Leased Premises any machinery, equipment, article or thing that by reason of its weight, size or use, might in the opinion of the Landlord damage the Building or the Leased Premises and will not at any time overload the floors of the Leased Premises. If any damage is caused to the Building or the Leased Premises by any machinery, equipment, object or thing or by overloading, the Tenant will forthwith repair such damage, or, at the option of the Landlord, pay to the Landlord, upon demand, the cost of repairing such damage plus a sum equal to fifteen percent (15 %) of such cost, representing the Landlord's administrative and overhead costs.

ARTICLE 9

Damage and Destruction

Section 9.1 Destruction of the Leased Premises

(a) If the Leased Premises are destroyed or damaged as a result of fire or any other peril which is insured against by the Landlord, then if:

(i) the Leased Premises are rendered wholly or partially untenable, this Lease will continue in effect and the Landlord will commence diligently to restore the Leased Premises to the extent only of

insurance proceeds actually received by the Landlord and only to the extent of the Landlord's Work set out in Schedule "C" of this Lease. To the extent of insurance proceeds actually received by the Landlord, Basic Rent will abate entirely or proportionately, as the case may be, to the portion of the Leased Premises rendered untenable from the date of the destruction or damage until the Landlord has substantially completed its restoration work; or

(ii) the Leased Premises are not rendered untenable in whole or in part, this Lease will continue in effect, the Rent and other amounts payable by the Tenant will not abate and the Landlord will commence diligently to restore the Leased Premises to the extent required by this Section 9.1(a).

(b) Once the Landlord has substantially completed the Landlord's Work in accordance with Section 9.1(a), the Tenant will complete all work required to fully restore the Leased Premises for business, including, without limitation the Tenant's Work. Nothing in this Section 9.1 requires the Landlord to rebuild the Leased Premises in the condition and state that existed before the damage, but the Leased Premises, as rebuilt, will have reasonably similar facilities and services to those in the Leased Premises prior to the damage.

(c) Notwithstanding Section 9.1(a), if the Leased Premises are damaged or destroyed by any cause whatsoever the Leased Premises cannot be rebuilt to the extent of the Landlord's Work within ninety (90) days of the damage or destruction (assuming normal working days without overtime), the Landlord may, instead of rebuilding or making the Leased

Premises fit for the Tenant in accordance with Section 9.1(a), terminate this Lease by written notice to the Tenant given within thirty (30) days after the damage or destruction, and in such event Rent will abate as of the date of damage or destruction.

Section 9.2 Destruction of the Building.

(a) Notwithstanding Section 9.1, if twenty-five percent (25%) or more of the Rentable Area of the Building is damaged or destroyed (whether or not the Leased Premises are damaged or destroyed) and if the damaged or destroyed parts of the Building cannot be rebuilt to the extent of the Landlord's Work or made fit for the purposes of the respective occupants of the premises within ninety (90) days of the damage or destruction (assuming normal working days without overtime), then the Landlord may terminate this Lease upon not less than thirty (30) days' notice by written notice to the Tenant given within sixty (60) days after the damage or destruction, and in such event, Rent will abate as of the effective date of the termination.

(b) If any part of the Building is destroyed or damaged and the Landlord does not elect to terminate this Lease, the Landlord will commence diligently to restore the Building, to the extent only of insurance proceeds actually received by the Landlord and to the extent only of the Landlord's work described in the various Leases for the affected premises in the Building, and exclusive of any tenant's responsibilities set out therein. If the Landlord elects to restore the Building, the Landlord may restore according to plans and specifications and working drawings other than those used in the original construction of the Building.

Section 9.3 Expropriation.

Both the Landlord and Tenant agree to co-operate with the other regarding an expropriation of the Leased Premises or the Property or any part thereof, so that each may receive the maximum award to which they are respectively entitled at law. To the extent that any portion of the Property other than the Leased Premises is expropriated, the full proceeds accruing or awarded as a result will belong to the Landlord and the Tenant and will be equitably divided based on the final determination of the governing body as outlined in any expropriation award.

Section 9.4 Architect.

The opinion, decision or certificate of the Architect will bind the parties as to (a) the percentage of the Rentable Area of the Building damaged or destroyed; (b) the period of time required to restore the Leased Premises or the Building; (c) whether and to what extent the Leased Premises are rendered untenable; (d) the date upon which the Landlord's or Tenant's restoration work is completed or substantially completed and the date when the Leased Premises are rendered tenantable; and (e) the state of completion of any Landlord's or Tenant's work under this Lease.

ARTICLE 10

Assignment and Subletting

Section 10.1 Assignment and Subletting.

(a) The Tenant will not enter into an assignment (whether by operation of law or otherwise) nor a mortgage, charge or debenture (floating or otherwise) of this Lease, the Leasehold Improvements, the Fixtures or the Leased Premises, nor a sublease or sharing or parting with possession of all or any

part of the Leased Premises (individually and collectively, a "Transfer"), with or in favour of any Person except to a subsidiary or affiliate, in which case written notification must be provided to the Landlord (a "Transferee"), without first submitting to the Landlord a written request for the Landlord's consent to the Transfer and obtaining the Landlord's prior written consent to the Transfer. Notwithstanding the Landlord and Tenant Act (Ontario) or any other statute of common law, (i) such consent may be unreasonably withheld if the Landlord exercises its termination right set out in Section 10.1(d), but otherwise will not be unreasonably withheld, and (ii) the Landlord will be deemed to be reasonable in withholding its consent to any Transfer if:

(i) the Transfer is contrary to any covenants or restrictions granted by the Landlord to other existing or prospective tenants or occupants of the Building, or to the Mortgagee or any other parties;

(ii) in the Landlord's opinion: (1) the financial background, business history and capability of the Transferee is not satisfactory, (2) the Transferee may not be able to pay the Rent in full when due and payable; or (3) the nature or character of the proposed business of the Transferee is such that it might harm the Landlord's business or reputation or reflect unfavourably on the whole or any part of the Building, the Landlord, the other tenants of the Building or the image of any of them, or is unethical, immoral or illegal;

(iii) the Landlord at that time has, or will have in the next ensuing three month period, other premises elsewhere in the Building which might be suitable for the needs of the Transferee:

(iv) the Transferee pays or gives to the Transferor money or other value that is reasonably attributable to the desirability of the location of the Leased Premises or to the Alterations that are owned by the Landlord or that the Landlord has paid for in whole or in part;

(v) the Transfer is in favour of any existing occupant of the Building;

(vi) the Landlord does not receive sufficient information from the Tenant of the Transferee to enable it to make a determination concerning the matters set out above; or

(vii) any amount of Rent payable by the Transferee pursuant to the Transfer is less than that provided for in this Lease, or the Transfer is otherwise on terms more favourable to the Transferee than the terms set forth in this Lease.

(b) "Transfer" includes (i) any disposition (whether by operation of law or otherwise), redemption or subscription of any shares of the Tenant or of any occupant of the Leased Premises or of any of their "affiliates" (within the meaning of the Canada Business Corporations Act) which results in a change in the direct or indirect effective control of the Tenant or of any occupant of the Leased Premises (if the Tenant or occupant is or becomes a

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corporation), unless (A) the disposition, redemption or subscription is of shares that are listed and traded on any recognized stock exchange in Canada or the United States, and (B) the Landlord is satisfied that there will be a continuity of business practices and policies, and management of the Tenant or occupant of the Leased Premises; and (ii) any disposition, redemption or acquisition (whether by operation of law or otherwise) of a partnership interest in the Tenant or any occupant of the Leased Premises which results in a change in the effective control of the Tenant or of any occupant of the Leased Premises (if the Tenant or occupant is a partnership or is directly or indirectly controlled by a partnership), unless the Landlord is satisfied that there will be a continuity of business practices and policies, and management of the Tenant. For a Transfer described in this Section 10.1(b), the Transferor is the Person that has effective control before the Transfer and the Transferee is the Person that has effective control after the Transfer.

(c) The consent by the Landlord to any Transfer will not constitute a waiver of the necessity for consent to any subsequent Transfer.

(d) Any request by the Tenant for the Landlord's consent to a Transfer will specify the proposed Transferee and provide full particulars of the Transfer including, without limitation, copies of any written offer, agreement or draft agreement with respect to the Transfer, setting out the terms the Tenant is prepared to accept subject to compliance with this Lease and disclosing any monetary payments or other consideration made or to be made by the Transferee as consideration for the Transfer and any other information concerning the Transfer or the financial or business status of the Transferee that the Landlord may require. The Landlord will, within fifteen (15) days after receipt of the request and all necessary information, notify the Tenant in writing either that (i) it consents or does not consent to the Transfer, or (ii) it elects to cancel this Lease as to the whole or the part of the Leased Premises intended to be affected by the Transfer, instead of consenting to the Transfer. The Landlord's failure to respond within such fifteen (15) day period will not be construed as a consent by the Landlord. If the Landlord elects to cancel this Lease, the Tenant may, by written notice to the Landlord given within seven (7) days after receipt of the Landlord's notice of termination, withdraw its request for the Landlord's consent and, in such event, the Landlord's election to cancel this Lease will be void and of no effect whatsoever, and the Transfer will not take place. If the Tenant fails to so withdraw its request for the Landlord's consent, the Tenant will deliver vacant possession of the whole or part, as the case may be, of the Leased Premises affected by the termination on the date specified in the Landlord's notice of termination (the "Termination Date"), which shall be not less than thirty (30) days, nor more than one hundred and twenty (120) days after the date such notice is given, Rent will be apportioned to the Termination Date and this Lease will

expire on the Termination Date with respect to such part or the whole of the Leased Premises as though the Termination Date were the date set for expiration of the Term. If the Tenant is required to deliver possession of a part only of the Leased Premises, the Tenant will (A) pay to the Landlord all costs incurred in connection with rendering such part functionally separate and suitable for separate use and occupancy, including partitioning and providing entrances and services thereto, plus a sum equal to fifteen percent (15%) of such costs, representing the Landlord's administrative and overhead costs, and (B) perform all necessary modifications in the remaining portion of the Leased Premises in accordance with Section 8.3.

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(e) Following any Transfer, the Landlord may collect Rent from the Transferee and apply the net amount collected to the Rent payable under this Lease, but no acceptance by the Landlord of any payments by a Transferee will constitute a waiver of the requirement for the Landlord's consent to such Transfer, or an acceptance of the Transferee as the Tenant, or a release of the Tenant from the further performance by the Tenant of its covenants and obligations under this Lease. Any documents evidencing the Transfer may, at the Landlord's option, be prepared by the Landlord or its solicitors, and all legal costs incurred by the Landlord will be paid by the Tenant to the Landlord or its solicitors. Unless the Transferee is a subtenant, upon the Transfer the Transferor will retain no rights under this Lease in respect of the Leased Premises or the obligations to be performed by the Landlord under this Lease, but notwithstanding anything to the contrary, the Transferor will not be released from the covenants, obligations and agreements on the part of the Tenant under this Lease.

(f) Any consent by the Landlord to a Transfer will be subject to the following conditions:

(i) the Basic Rent payable under the Lease will be the amount equal to the greatest of:

(1) the Landlord's rental rate for premises in the Building similar to the Leased Premises at the time of the Landlord's consent,

(2) the Basic Rent payable immediately prior to the Transfer; and

(3) the current Basic Rent multiplied by the percentage increase in the Consumer Price Index [(All items for Regional Cities) for the City of Toronto (or if the Consumer Price Index is no longer published, any replacement index designated by the Landlord) with any necessary conversions to be made by the Landlord)] from the month in which the Commencement Date

occurs to the month in which the Transfer occurs.

If the annual Basic Rent is to increase at specified times in accordance with this Lease, such increases will be added to the Basic Rent as determined above;

(ii) the Tenant will pay to the Landlord any money or other value (including, without limitation, any amount payable by the Transferee to the Tenant in excess of the Basic Rent payable by the Tenant under Section 3.2) which is paid by any Transferee to the Tenant in connection with a Transfer;

(iii) if the Landlord requires, the Transferee will, unless the Transfer is one that is described in Section 10.1(b)(i), execute an agreement with the Landlord agreeing to be bound by this Lease and the Transferor will execute an indemnity agreement on the Landlord's standard form in respect of obligations to be performed by the Transferee after the Transfer; and

(iv) any reasonable legal costs of the Landlord in connection with documents relating to the Transfer or the Landlord's consent, will be paid by the Tenant together with the Landlord's administrative charge for providing its consent.

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(g) The Tenant acknowledges and agrees that the Landlord will not be liable for any claims, actions, damages, liabilities or expenses of the Tenant or any Transferee arising out of the Landlord delaying or unreasonably withholding its consent to any Transfer and the Tenant's only recourse will be to bring an application for a declaration that the Landlord must grant its consent to the Transfer.

(h) The Tenant shall not advertise the whole or any part of the Leased Premises or this Lease for the purposes of a Transfer and shall not print, publish, post, display or broadcast any notice or advertisement to that effect and shall not permit any broker or other Person to do any of the foregoing, unless the complete text and format of any such notice, advertisement, or offer is first approved in writing by the Landlord. Without in any way restricting or limiting the Landlord's right to refuse any text or format on other grounds, any text or format proposed by the Tenant shall not contain any reference to the rental rate of the Leased Premises or any other premises in the Building.

Section 10.2 Assignment by the Landlord.

If there is a sale, lease or other disposition by the Landlord of the

Property or any part thereof, or the assignment by the Landlord of this Lease or any interest of the Landlord hereunder, then to the extent that the purchaser or assignee assumes the covenants and obligations of the Landlord under this Lease, the Landlord will, without further agreement, be released from all liability with respect thereto.

ARTICLE 11

Status, Statement, Subordination and Attornment

Section 11.1 Status Statement.

Within ten (10) days after written request by the Landlord, the Tenant will execute and deliver, without charge and in a form supplied by the Landlord, a certificate or acknowledgement of the status and validity of this Lease, the state of the rental account hereunder and other information reasonably required by the Landlord.

Section 11.2 Subordination and Attornment.

(a) This Lease and the Tenant's rights hereunder are, and will at all times be, subordinate to all ground or underlying leases, mortgages, trust deeds or the charge or lien resulting from, or any instruments of, any financing, refinancing or collateral financing (collectively, an "Encumbrance") and to any advances thereon and renewals or extensions thereof from time to time affecting the Property or any part thereof and the Tenant will, upon request and without charge, execute and deliver any document reasonably requested by the Landlord to confirm the foregoing. The Tenant will also, if requested, attorn to (i) the Owners, the holder of any Encumbrance, or any representative, receiver or receiver-manager appointed or designated by such holder and (ii) any purchaser, transferee or disponee of the Property (or any part of it) or of any ownership or equity interest in the Property (or any part of it), including any purchaser at a foreclosure sale or any sale under a power of sale, under any Encumbrance. The

Landlord shall use its reasonable efforts to obtain a non-disturbance agreement, on the mortgagee's standard form with respect to its encumbrance.

(b) The form and content of any document requested under Section 11.2(a) will be that required by the Landlord, the holder of the Encumbrance or the purchaser, transferee or disponee, as the case may be, and the Tenant will execute and deliver any such document to the Landlord within ten (10) days after the request is made.

Section 11.3 Execution of Documentation.

The Tenant will, upon the Landlord's request, execute and deliver to the Landlord within ten (10) days after the request is made, any statements, instruments and certificates required to carry out the intent of Section 11.1 or Section 11.2. In addition to the Landlord's other remedies under this Lease and at law, if the Tenant fails to so execute and deliver any such statements, instruments or certificates, the Tenant irrevocably appoints the Landlord as the Tenant's attorney with full power and authority to execute and deliver, in the name of the Tenant, all such statements, instruments and certificates.

ARTICLE 12

Default

Section 12.1 Right to Re-enter.

(a) An "Event of Default" occurs whenever:

(i) any Rent or Sales Taxes are not paid when due and payable;

(ii) any covenant or condition of this Lease to be observed or performed by the Tenant is breached (other than a breach specified in Section 12.1(a) (iii)) and (A) the breach is not remedied within ten (10) days after written notice to the Tenant specifying the particulars of the breach, or (B) if ten (10) days is not a reasonable time to remedy the breach, the Tenant has not commenced diligently to remedy the breach within such ten (10) day period and is not providing diligently to remedy the breach thereafter within a reasonable time; or

(iii) any of the following events occurs:

(1) a report, statement or certificate delivered by the Tenant pursuant to this Lease is false or misleading except for a misstatement that is the result of an inadvertent or unintentional error,

(2) the Tenant, or a Person carrying on business in a part of the Leased Premises, or an Indemnifier becomes bankrupt or insolvent or takes the benefit of any statute for bankrupt or insolvent debtors or any proposal, assignment or arrangement with its creditors;

(3) a receiver or a receiver and manager is appointed for all or a part of the property of the Tenant, or of another Person carrying on business in the Leased Premises, or of an Indemnifier;

(4) steps are taken or proceedings are instituted for the dissolution, winding up or other termination of the Tenant's or the Indemnifier's existence or the liquidation of their respective assets;

(5) the Tenant or the Indemnifier makes or attempts to make a bulk sale of any of their assets regardless of where they are situated (except for a bulk sale made to a Transferee when the Transfer is permitted under this Lease or has been consented to by Landlord);

(6) property is sold, disposed of or removed from the Leased Premises so that there does not remain sufficient property on the Leased Premises available for distraint, free and clear of any lien, charge or other encumbrance ranking ahead of the Landlord's right of distress, to satisfy the Rent due or accruing for at least twelve (12) months;

(7) the Leased Premises are vacant or unoccupied for five (5) consecutive days, or the Tenant abandons or attempts to abandon the Leased Premises;

(8) the Tenant effects or attempts to effect a Transfer that is not permitted by this Lease; or

(9) this Lease or any of the Tenant's assets on the Leased Premises are taken or seized under a writ of execution, an assignment, pledge, charge, debenture, or other security instrument.

(b) Upon the occurrence of an Event of Default, (i) the full amount of the current month's and the next three (3) month's installments of Rent (calculated according to Section 12.1(c)), and Sales Taxes will become due and payable, and (ii) the Landlord may re-enter and re-possess the Leased Premises and on such a re-entry, this Lease and all of the Tenant's rights hereunder will terminate without liability on the part of the Landlord for loss or damage, and without prejudice to the Landlord's rights to recover arrears of Rent or Sales Taxes or damages for any previous breach by the Tenant of any covenant or condition of this Lease. On such a termination, (1) the Tenant will promptly (and in any case within ten (10) days after written notice requiring it to do so) remove all of its property from the Leased Premises, or (2) the Landlord may at any time remove all or part of the property from the Leased Premises and store it in a public warehouse or elsewhere at the cost of the Tenant. The Landlord will not be responsible for loss or damage to any of the Tenant's property regardless of how the loss or damage is caused, and regardless of negligence. If the Tenant fails to remove its property as required by clause (1) above, or if it fails to pay the Landlord's costs of removal and storage within ma (10) days after written notice specifying those costs, the Tenant will be considered to have abandoned its property and the Landlord will be entitled to retain it or to sell or dispose of the Tenant's property for the Landlord's own benefit. Notwithstanding any such termination, the Landlord shall be entitled to recover damages from the Tenant including, but not limited to, (A) damages for loss of Rent and Sales Taxes suffered by of this Lease having been prematurely

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terminated; (B) the cost of recovering the Leased Premises; and (C) solicitor's fees on a solicitor and his client's basis.

(c) The Tenant agrees that despite anything contained in the Landlord and Tenant Act (in particular, but not limited to Section 19(2)), no notice of an Event of Default or of a breach of any covenant or condition of this Lease will be considered void or ineffective as of the result of a minor or technical inaccuracy or error.

Section 12.2 Rejection of Tenant's Repudiation.

If an Event of Default occurs the Landlord may, instead of terminating this Lease, insist on the performance of the covenants and conditions of this Lease and in that case may do both or either of the following: (a) levy distress for arrears of Rent; and (b) take legal proceedings against the Tenant for both or either of (i) payment of Rent and Sales Taxes as they become due; and (ii) performance of the covenants and conditions of this Lease; all without prejudice, however, to the Landlord's right to terminate this Lease at any time should the Event of Default continue unremedied.

Section 12.3 Expenses.

If legal proceedings are brought for recovery of possession of the Leased Premises, for the recovery of Rent or Sales Taxes, or because of an Event of Default by the Tenant, the Tenant will pay to the Landlord its expenses, including its solicitors' fees (on a solicitor his client's basis).

Section 12.4 Waiver of Exemption from Distress.

Notwithstanding the Landlord and Tenant Act or any other applicable legislation, none of the furniture, equipment or other property that is, or was at any time, owned by the Tenant is exempt from levy by distress for Rent.

Section 12.5 Landlord May Cure the Tenant's Default.

If the Tenant defaults in the payment of money that it is required under this Lease to pay to a third party, the Landlord may, after giving five (5) days notice in writing to the Tenant, pay all or part of the amount payable. If the Tenant commits a breach of a covenant or condition of this Lease (except for default in the payment of Rent) the Landlord may, after giving reasonable notice (it being agreed that forty-eight (48) hours is a reasonable notice of default of Section 7.1), or, without notice in the case of an emergency, perform or cause to be performed all or part of what the Tenant failed to perform and may enter upon the Leased Premises and do those things that the Landlord

considers necessary for that purpose. The Tenant will pay to the Landlord on demand, the Landlord's expense incurred under this Section 12.5 plus an amount equal to fifteen percent (15%) of those expenses for the Landlord's overhead and administrative costs. The Landlord will have no liability to the Tenant for loss or damages resulting from its action or entry upon the Leased Premises.

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(a) The Tenant will pay to the Landlord, upon demand, a late payment service charge of Two Hundred and Fifty Dollars (\$250.00) for any payment of Rent not paid when due pursuant to this Lease.

Section 12.6 Application of Money.

The Landlord may apply money received from or due to the Tenant against money due and payable under this Lease.

Section 12.7 Remedies Generally.

The remedies under this Lease are cumulative. No remedy is exclusive or dependent upon any other remedy. Any one or more remedies may be exercised generally or in combination. The specifying or use of a remedy under this Lease does not limit rights to use other remedies available under this Lease or at law generally. Subject to Section 10.1(g), any breach by the Landlord under this Lease can be adequately compensated in damages and the Tenant agrees that its only remedy to enforce its rights under this Lease is an action for damages.

ARTICLE 13

Miscellaneous

Section 13.1 Rules and Regulations.

The Tenant will observe any rules and regulations from time to time adopted by the Landlord for all or any part of the Property (the "Rules and Regulations"), including but not limited to those set out in Schedule "E," and all such Rules and Regulations are a part of this Lease. The Rules and Regulations may differentiate between different types of businesses, but the Rules and Regulations will be adopted and promulgated by the Landlord acting reasonably and in such manner as would a prudent landlord of a reasonably similar facility. The Landlord may amend or supplement the Rules and Regulations as the Landlord considers necessary for the safety, care, cleanliness and efficient operation of all or any part of the Property. Notice of the Rules and Regulations and amendments and supplements, if any, will be given to the Tenant and the Tenant will thereupon observe them provided that they do not contradict any terms, covenants and conditions of this Lease. The Landlord cannot change or enforce any Rules and Regulations that are unreasonable or discriminatory.

Section 13.2 Intent and Interpretation.

(a) Net Lease.

It is intended that this Lease is a completely carefree net lease to the Landlord. Except as expressly set out in this Lease, the Landlord is not responsible during the Term for any costs, charges, expenses and outlays of any nature whatsoever arising from or relating to the Leased Premises, or the use and occupancy thereof and the Tenant will pay all charges, impositions, costs and expenses of every nature and kind relating to the Leased Premises except as expressly set out in this Lease.

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(b) Obligations as Covenants and Severability.

Each obligation or agreement of the Landlord or the Tenant expressed in this Lease, even if not expressed as a covenant, is considered to be a covenant. If any provision of this Lease is or becomes unenforceable, it shall be considered separate and severable from the Lease and the remaining provisions shall remain in force and be binding upon the parties as though such provision had not been included.

(c) Entire Agreement and Amendment or Modification.

This Lease and the Schedules, and Riders, if any, attached together with the Rules and Regulations set forth all covenants, promises, agreement, conditions or understandings, either oral or written, between the Landlord and the Tenant. No alteration or amendment to this Lease will be binding upon the Landlord or the Tenant unless in writing and signed by the Tenant and the Landlord.

(d) Governing Law.

This Lease will be construed in accordance with and governed by the laws of the Province of Ontario.

(e) Time of the Essence.

Time is of the essence of this Lease and of every part of it.

Section 13.3 Overholding - No Tacit Renewal.

If the Tenant remains in possession of the Leased Premises after the end of the Term without having signed a new lease or an extension of Term agreement, there is no tacit renewal of this Lease or the Term, notwithstanding

any statutory provisions or legal presumptions to the contrary, and the Tenant will be deemed to be occupying the Leased Premises as a tenant from month-to-month at a monthly Basic Rent equal to twice the monthly amount of Basic Rent payable during the last month of the Term, and otherwise, upon the same terms, covenants and conditions as are set for in this Lease (including the payment of Additional Rent) so far as they are applicable to a monthly tenancy.

Section 13.4 Tenant Partnership or Group.

(a) If the Tenant is a partnership, each Person who is or subsequently becomes a member of the partnership or any successor thereof will be and continue to be subject to and jointly and severally liable for the performance and observance of the terms, covenants and conditions of this Lease, even if the Person ceases to be a member of such partnership or successor thereof.

(b) If the Tenant is comprised of more than one (1) Person, each such Person will be and continue to be subject to and jointly and severally liable for the performance and observance of the terms, covenants and conditions of this Lease, even if the Person ceases to be involved in the business conducted from the Leased Premises.

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Section 13.5 Waiver.

(a) No waiver by either party of any breach by the other of any term, covenant or condition of this Lease, will constitute a waiver of either party's right in respect of any continuing or subsequent breach. No waiver will be inferred from or implied by any subsequent acceptance of Rent by the Landlord, even if the Landlord knew of the preceding breach at the time it accepted the Rent, nor from or by anything done or omitted to be done by the Landlord except from or by an express written waiver by the Landlord.

(b) All Rent is payable by the Tenant in accordance with Section 3.1, and the Tenant waives the benefit of any statutory or other rights from time to time existing in respect of abatement, set-off or compensation.

Section 13.6 Limitation of Liability.

Notwithstanding anything contained in this Lease or in any statutory provision or any rule of law to the contrary, the Tenant acknowledges and agrees that if it obtains a monetary judgment or award in its favour against the Landlord (which is not under appeal by the Landlord):

(a) the Tenant shall be entitled to satisfy such judgment or award only to the extent of the Landlord's estate and interest in the Property,

subject to the prior rights of the Mortgagees or other encumbrancers; and

(b) the Tenant shall not be entitled to levy execution or to enforce its judgment or award by lien, attachment or any other enforcement procedure for the satisfaction of any such judgment or award against any property of the Landlord other than the Landlord's estate and interest in the Property.

Section 13.7 Accord and Satisfaction.

No payment by the Tenant or receipt by the Landlord of a lesser amount than the monthly payment of Rent stipulated is deemed to be other than on account of the earliest stipulated Rent, nor is any endorsement or statement on any cheque or any letter accompanying any cheque or payment as Rent deemed an acknowledgment of full payment of accord and satisfaction. The Landlord may accept and cash any cheque or payment without prejudice to the Landlord's right to recover the balance of the Rent due or to pursue any other remedy provided in this Lease.

Section 13.8 Force Majeure.

Notwithstanding anything in this Lease, if either party is bona fide delayed or hindered in or prevented from the performance of any term, covenant or act required hereunder by reason of strikes or labour troubles; inability to procure materials or services; power failure; restrictive governmental laws or regulations; riots; insurrection; sabotage; rebellion; war; act of God; or other reason whether of a like nature or not which is not the fault or within the reasonable control of the party affected, then the performance of that term, covenant or act is excused for the period of the delay and the time for performing that term, covenant or act will be extended accordingly.

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However, the provisions of this Section do not operate to excuse the Tenant from the prompt payment of Rent.

Section 13.9 Notices.

Any notice, demand, request or other instrument required or permitted to be given under this Lease shall be in writing, and (a) if given by the Tenant to the Landlord shall be sufficiently given if delivered prepaid to the Landlord, at the Landlord's address set out in Paragraph (h) of the Basic Terms, and (b) if given by the Landlord to the Tenant shall be sufficiently given if delivered prepaid to the Tenant's address set out in Paragraph (i) of the Basic Terms, and every such notice is conclusively deemed to have been given upon the date it was so delivered. If there is more than one Tenant, any notice required or permitted by this Lease may be given by or to any one of them and has the

same force and effect as if given by or to all of them. Either party may give written notice of any change of its address and thereafter the new address is deemed to be the address of that party for the giving of notices.

Section 13.10 Registration.

The Tenant will not allow or cause this Lease to be registered. If either party intends to register a document for the purpose only of giving notice of this Lease or of any assignment or sublease of this Lease, then, upon request, both parties will join in the execution of a short form or notice of this Lease or any assignment or sublease which will (a) be prepared by the Tenant or its solicitors and be subject to the approval of the Landlord at The Tenant's expense, and (b) only describe the parties, the Leased Premises, the Term, the Commencement Date, and any options to extend the Term. On or before the expiry or earlier on of this Lease, the Tenant shall, at its expense, remove from the title to the Lands, any short form or notice of this Lease registered thereon.

Section 13.11 Accrual or Basic Rent and Additional Rent.

Rent will be considered as annual and accruing from day-to-day based upon a three hundred and sixty-five (365) day calendar year and where it becomes necessary for any reason to calculate Rent for an irregular period of less than one (1) year, an appropriate apportionment and adjustment will be made.

Section 13.12 Compliance with the Planning Act.

It is a condition of this Lease that the subdivision control provisions of the applicable legislation in force in the Province of Ontario from time to time, be complied with if they apply. If the provisions of such legislation do apply, then until any necessary consent to the Lease is obtained, the Term (including any extensions thereof) and the Tenant's rights granted by this Lease are deemed to extend for a period only of twenty-one (21) years less one (1) day from the Commencement Date.

Section 13.13 Quiet Enjoyment.

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If the Tenant pays the Rent and observes and performs all its terms, covenants and conditions, the Tenant will quietly hold and enjoy the Leased Premises for the Term without interruption by the Landlord, unless otherwise provided under this Lease.

IN WITNESS WHEREOF, the Landlord and the Tenant have signed and sealed this Lease.

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SCHEDULE "A"

LEGAL DESCRIPTION

ALL AND SINGULAR that certain parcel or tract of land and premises situate, lying and being in the City of North York, in the Municipality of Metropolitan Toronto, composed of those parts of Block "D" according to a Plan registered in the Land Registry Office for the Registry Division of Toronto Boroughs and York South as Number 7612 designated as Part 1 on a plan of survey prepared by J.D. Barnes Limited dated July 26, 1979 and deposited in the said Land Registry Office as Plan 64R-7908 and as Part 2 on a plan of survey prepared by J.D. Barnes Limited dated February 10, 1979, and deposited in the said Land Registry Office as Plan 64R-7623.

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SCHEDULE "B"

PLAN OF THE 11TH FLOOR OF THE BUILDING

[FLOORPLAN]

The purpose of this plan is to identify the approximate location of the Leased Premises in the Building. The Landlord reserves the right at any time to relocate, rearrange, alter or expand any part of the Leased Premises from that shown on this floor plan.

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SCHEDULE "C"

CONSTRUCTION OF THE LEASED PREMISES

II. For all other purposes of the Lease:

1. The Landlord shall finish the Leased Premises in the manner standard to the Building which, without limiting the generality of the

foregoing, will include the following:

(a) for multi-tenancy floors, demising partitions separating the Leased Premises from adjacent leasable premises, together with the Landlord's standard entrance door and the Landlord's standard other door(s) from the public corridor to the Leased Premises as by the appropriate governmental authorities. The interior surfaces of the demising partitions will be primed and ready to receive the Tenant's paint. It is understood that the location of the demising partitions is subject to approval of the appropriate governmental authorities;

(b) acoustic tile ceiling panels; and

(c) exposed T-bar dropped ceiling system, together with red fluorescent lighting fixtures with original tubes and ballasts installed.

2. (a) The Tenant shall pay to the Landlord as Additional Rent, upon demand, the cost of any additional equipment supplied or work performed by the Landlord specifically for the Tenant and any excess or additional cost in the Landlord's Work occasioned by the Tenant's initial or revised requests.

(b) The amount so payable shall be the total cost to the Landlord and shall include (in addition to direct labour, materials and applicable taxes), architectural and engineering fees, any costs attributable to changes requested by the Tenant after approval of the Tenant's plans and specifications by the Landlord, plus the Landlord's overhead and administrative costs of fifteen percent (15%) of the total cost to the Landlord of such equipment or work.

(c) Failure by the Tenant to pay any amounts due under the provisions of this Schedule in the manner provided herein shall constitute a default entitling the Landlord to its remedies under Section 12 of this Lease and to retain for its own use without payment therefor, any Tenant's Work which has been commenced or completed within the Leased Premises.

B. Tenant's Work.

1. Any alterations or construction not included as part of the Landlord's Work and any changes desired by the Tenant which depart from the Building's standard or which involve the use of materials not standard to the Building are the Tenant's Work is subject to the Landlord's prior written approval and shall be completed at the expense of the Tenant.

2. The Tenant will supply and install window coverings as

specified by the Landlord or the Landlord will, at its option, supply and/or install standard window coverings at the Tenant's expense.

3. Prior to commencing any Tenant's Work, the Tenant will obtain, at its expense, the Landlord's approval of all the Tenant's plans and specifications for the Tenant's Work and all permits, from the applicable authorities, that are necessary for the commencement and completion of the Tenant's Work. The Tenant will not apply for or obtain any such permits unless and until the Landlord shall have approved, in writing, the Tenant's plans and specifications for all aspects of the Tenant's Work.

4. The Tenant and its contractors are responsible to remove garbage and debris from the Leased Premises daily and place same into garbage containers provided for that purpose. All tenants will be assessed a portion, as reasonably determined by the Landlord, of the cost of providing empty garbage containers on the job site during the construction of their leased premises. Any of the Tenant's garbage or debris removed by the Landlord's employees will be charged to the Tenant's account and shall be payable as Additional Rent upon demand.

5. The Tenant will pay to the Landlord upon demand (a) all reasonable costs incurred by the Landlord with to supervision and administration during the installation of the Leasehold Improvements, including without limitations, supervision by mechanical, engineering and other consultants; (b) all reasonable costs incurred by the Landlord in connection with the Tenant's Work for vertical transport of workers and materials; and (c) all other costs incurred by the Landlord in connection with the Tenant's Work.

6. Notwithstanding anything to the contrary, the Landlord may, upon reasonable notice to the Tenant, require the Tenant to perform parts of the Tenant's Work prior to the completion of the Landlord's Work. At the Landlord's option, the Landlord or its contractors may perform all mechanical or electrical work or any work which may affect the Structure to be done by or on behalf of the Tenant with respect to the Leased Premises. The Tenant shall pay to the Landlord upon demand as Additional Rent, all costs and expenses so incurred by the Landlord or its contractors.

7. The Tenant shall pay to the Landlord as Additional Rent, upon demand, an amount equal to One Dollar (\$1.00) per square foot of the Rentable Area of the Leased Premises, which amount shall be applied against those amounts payable pursuant to Paragraphs 4 and 5 of this Schedule "C". The Tenant may elect to have the Landlord perform all of the Tenant's Work at the Tenant's cost and in such event, the Tenant shall pay to the Landlord as Additional Rent, upon demand, the total cost incurred by the Landlord, plus the Landlord's overhead and administrative costs of fifteen percent (15%) of the total cost in lieu of the aforesaid charge of One Dollar (\$1.00) per square foot.

C. Procedures.

1. The Landlord shall give the Tenant at least five (5) days'

prior notice of the date upon which possession of the Leased Premises will be available to the Tenant with the Landlord's Work substantially completed or completed to the extent that the Tenant's Work can

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be performed by the Tenant in conjunction with the Landlord's Work. The Tenant shall, during the Fixturing Period, complete the Tenant's Work and cause its employees and contractors to do their work so as not to interfere with the Landlord's contractors and employees in the completion of the Landlord's Work.

2. The Tenant shall, prior to entering any portion of the Building or the Leased Premises for the commencement of the Tenant's Work, complete each of the following obligations to the Landlord's satisfaction:

(a) obtain the Landlord's written approval of the Tenant's plans and specifications (three (3) sets of the plans and specifications shall be given to the Landlord for its approval);

(b) provide the Landlord with certificates of insurance in a form satisfactory to the Landlord, duly executed by the Tenant's insurers evidencing that the insurance required to be placed by the Tenant pursuant to this Lease has been obtained;

(c) ensure that all Tenant's Work is performed (i) by competent workmen whose labour union affiliations are compatible with those employed by the Landlord and its contractors in the Building; (ii) in a good and workmanlike manner; and (iii) only during such hours as are designated by the Landlord. All contractors shall be subject to the prior reasonable approval of the Landlord;

(d) provide evidence satisfactory to the Landlord that the Tenant has obtained at its expense all necessary consents, permits and licenses from all appropriate governmental authorities. Should the Tenant fail to obtain any such required consent, permit or license, the Landlord may, but shall not be obliged to, obtain same on behalf of the Tenant, at the Tenant's cost, payable as Additional Rent on demand, and the Landlord shall be entitled to exercise any or all of the remedies contained in this Lease;

(e) provide evidence satisfactory to the Landlord of the Tenant's work schedule for completion of Tenant's Work.

3. Notwithstanding anything to if the Landlord has been impeded or delayed in completing the Landlord's Work in connection with the Leased Premises or in making available the services which the Landlord is obliged to furnish to the Leased Premises and if such impediment or delay has been occasioned by the Tenant's delay in furnishing its plans or any other information required by this Lease by the respective dates herein set out or by

any other failure of the Tenant to comply with any or the provisions of this Lease, including the performance of the Tenant's Work (as to any and all of which the Architect shall be the sole judge), then the Commencement Date shall be conclusively deemed to be the date fixed by the Architect as the date when the Fixturing Period would have commenced had the Landlord not been delayed by the Tenant in completing the Landlord's Work as aforesaid. The Tenant shall not be entitled to any abatement of Basic Rent or Additional Rent by reason of any such delay in occupancy following such date so fixed by the Architect.

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D. Requirements after Performance of Tenant's Work.

The Tenant shall, upon completion of the Tenant's Work and if requested by the Landlord:

1. Provide the Landlord with statutory declarations of the head contractor and one of the Tenant's officers (the "declaration"):

(a) stating that the Tenant's Work has been performed strictly in accordance with the plans and specifications approved by the Landlord and this Schedule "C" and that all deficiencies (if any) which the Landlord has brought to the Tenant's attention have been corrected;

(b) stating that there are no construction liens or other liens or encumbrances registered or otherwise outstanding against the Leased Premises, the Building or the Lands in respect of work, services or materials relating to the Tenant's Work and that all accounts for work, services or materials have been paid in full with respect to all of the Tenant's Work;

(c) listing each contractor and subcontractor who did work or provided materials in connection with the Tenant's Work; and

(d) confirming the date on which the last work was performed and materials were supplied.

2. Provide to the Landlord an itemized list certified by the Tenant showing the costs actually expended by the Tenant for the completion of the Tenant's Work.

3. Provide to the Landlord a clearance certificate issued under the Worker's Compensation Act in respect of each contractor and subcontractor listed on the declaration.

4. Obtain and provide to the Landlord a copy of every occupancy and other permit which may be required by any governmental or other regulatory authority having jurisdiction, to permit the Tenant to open for business.

5. Provide the Landlord with a certificate of a professional engineer or architect acceptable to the Landlord, certifying that the Tenant's Work has been carried out in accordance with the plans and specifications as approved by the Landlord, the Architect and the Landlord's engineering consultants.

E. Liens.

The Tenant shall ensure that no construction liens or other liens or encumbrances in respect of materials supplied or work done or to be done by the Tenant or on behalf of the Tenant or related to the Tenant's Work shall be registered against or shall otherwise affect the Lands or the Landlord's or the Tenant's interest in the Lands.

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SCHEDULE "D"
METHOD OF FLOOR MEASUREMENT

The following sets out the various methods of measuring areas in the Building.

(a) Office Areas - Single Tenancy Floors

Both the Rentable Area and the Usable Area of a floor in the Building occupied by a tenant shall be calculated by measuring the area within the outside face of the exterior building walls and glass. It shall include all space within the said area except the stairwells (unless installed for the exclusive benefit of a tenant occupying leased premises on more than one floor of the Building), elevator shafts, flues, stacks, pipe shafts, vertical ducts, other vertical risers which penetrate the floor and the walls enclosing such excepted areas. No deduction shall be made for washrooms, janitor closets, air-conditioning rooms, fan rooms, electrical, telephone or other rooms and closets within and servicing only that floor or servicing a single tenant on more than one floor, corridors, elevator lobbies, service elevator lobbies, any enclosures on the perimeter of the Building used for the purposes of cooling, heating or ventilating or for any columns or projections forming part of the Structure of the Building.

(b) Office Areas - Multiple Tenancy Floors

The Usable Area of leasable premises on a multiple tenancy floor (other than the ground floor) shall be calculated by measuring the area within the outside face of the exterior building walls and glass, the outside face of walls separating the leasable premises from common corridors and the centre of walls separating the leasable premises from adjacent leasable premises, including any enclosures on the perimeter of the Building used for the purposes of cooling,

heating or ventilating, and all columns or projections forming part of the Structure of the Building. If leasable premises have any recessed doorway, vestibule or other area which may be set back from the predetermined lease line, the area of such recess for all purposes lies within the Usable Area of the Leased Premises.

The Rentable Area of leasable premises on a multiple tenancy floor shall be the Usable Area of such leasable premises multiplied by a fraction, the numerator of which shall be the Rentable Area of that floor calculated on the basis of a single tenancy, and the denominator of which shall be the sum of the Usable Areas of all leasable premises on that floor.

(c) Ground Floor Areas

The Rentable Area of ground floor leasable premises shall be calculated by measuring the area within the outside face of the exterior buildings walls and glass, the outside face of walls separating the leasable premises from common corridors, the centre of walls separating the leasable premises from adjacent leasable premises and the predetermined lease line where the leasable premises face onto an interior public corridor or lobby area. No deduction shall be made for vestibules inside the permanent exterior building walls or the predetermined lease line, enclosures on the perimeter of the leasable premises used for the purpose of cooling, heating or ventilating and columns or projections forming part of the Structure of the Building. If ground floor leasable premises are served by a corridor, mechanical room, loading dock or other service area (the "Service Area"), the Rentable Area of such leasable premises shall include the area

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calculated by multiplying the Rentable Area of the Service Area by a fraction, the numerator of which shall be the Rentable Area of such leasable premises and the denominator of which shall be the sum of the Rentable Areas of all leasable premises served by the Service Area.

(d) Multi-floor Leased Premises

If any leasable premises are located on more than one floor of the Building then that part of such leasable premises on each floor shall be measured separately in accordance with the above provisions and the Rentable Area of such leasable premises shall be the aggregate of the Rentable Areas of such leasable premises on each floor of the Building.

(e) Storage Areas

The Rentable Area of leasable premises comprising the Storage Areas shall be calculated in the same manner as is provided for the calculation of the Rentable Area of ground floor leasable premises.

(f) Rentable Area of the Building

The Rentable Area of the Building shall be the aggregate of the Rentable Area of each office floor above grade calculated on the basis that it is a single tenancy floor together with the Rentable Area of each of the leasable premises on the ground floor.

The Rentable Area of the Building shall:

(i) exclude public lobbies and walkways on the ground floor and all Storage Areas; and

(ii) be adjusted from time to time to reflect any changes, additions or improvements to the Building.

SCHEDULE F

RULES AND REGULATIONS

1. The Tenant will not place or permit any debris, garbage, trash or refuse (collectively, "trash") to be placed or left in or upon any part of the Building outside of the Leased Premises. The Tenant will not remove from the Leased Premises or dispose of any trash other than in the manner and at the times prescribed by the Landlord. If the Leased Premises are part of the Retail Area: (a) the Tenant will keep any trash in ratproof containers (and if the Landlord requires, in refrigerated containers) within the interior of the Leased Premises until removed; (b) the Tenant will not permit undue accumulations of trash in the Leased Premises; and (c) the Tenant will remove all trash from the Leased Premises at the Tenant's expense, on a regular basis, in the manner and at the times prescribed by the Landlord.

2. The Landlord will permit the Tenant and the Tenant's employees and all Persons lawfully requiring communication with them to have the use during Normal Business Hours of the main entrance and the stairways, corridors, elevators, if any, or other mechanical means of access leading to the Leased Premises. At times other than during Normal Business Hours the Tenant and its employees will have access to the Building and to the Leased Premises only in accordance with the Rules and Regulations and will be required to identify themselves satisfactorily and to register in any book which the Landlord may keep for that purpose. The Tenant is not permitted to move in or out of the Leased Premises during Normal Business Hours.

3. The Tenant and its employees may use the washrooms, if any, on the Tenant's floor of the Building.

4. If the Leased Premises are part of the Office Area, the Tenant will allow window cleaners to have access to the Leased Premises during Normal Business Hours to clean the windows of the Leased Premises.

5. The sidewalks, entrances, passages, elevators and staircases will not be obstructed or used by the Tenant, its agents, servants, contractors, invitees or employees for any purpose other than ingress to and egress from the Leased Premises or the Building.

6. The Tenant, its agents, servants, contractors, invitees or employees, will not bring in or take out, position, construct, install or move any safe or other heavy machinery, equipment or furniture or anything which is likely to injure or destroy any part of the Building without first obtaining the Landlord's written consent. The Landlord will have the right to prescribe the weight permitted and the position thereof, and the use and design of planks, skids or platforms, to distribute weight. The Tenant will repair, at its expense, all damage caused to the Building in so moving or using any heavy equipment or other office equipment or furniture. The moving of all heavy equipment or other office equipment or furniture will occur only by prior arrangement with the Landlord. No Tenant will employ anyone to do its moving in the Building other than staff of the Building, unless permission to employ anyone else is given by the Landlord and the reasonable cost of such moving will be paid by the Tenant. Safes and other heavy office equipment and machinery will be moved through the halls and corridors only upon steel bearing

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plates. No freight or bulky matter of any description will be received into the Building or carried in elevators except during hours approved by the Landlord.

7. The Tenant will not place or cause to be placed any additional locks upon any doors of the Leased Premises without the approval of the Landlord and subject to any conditions imposed by the Landlord.

8. The Tenant will not permit any cooking of any food or liquids in the Leased Premises without the written consent of the Landlord.

9. Canvassing, soliciting and peddling in or about the Building are prohibited.

10. The Tenant will not place or maintain any supplies, merchandise or other articles in or otherwise obstruct any vestibule or entry of the Leased Premises, or the footwalks adjacent thereto or elsewhere on the exterior of the Leased premises or elsewhere in the Building including, without limitation elevators, hallways or stairwells.

11. The Tenant will not permit or allow any odors, vapors, steam, water, vibrations, noises or other undesirable effects to emanate from the

Leased Premises or any equipment or installation therein, which in the Landlord's opinion, are objectionable or cause any interference with the safety, comfort or convenience of the Building for the Landlord or the occupants and tenants thereof or their agents, servants, invitees or employees. The Tenant will keep all mechanical apparatus free of vibration and noise which may be transmitted beyond the Leased Premises.

12. The Tenant will use only the window coverings specified by the Landlord and will not install or permit to be installed on or adjacent to the windows in the Leased Premises any other window coverings or shades of any type whatsoever whether or not visible from the outside of the Building, including, without limitation, drapes, curtains, blinds or shades.

13. The Tenant shall not receive or ship fixtures, equipment or articles of any kind whatsoever except through facilities, doors and elevators designated by the Landlord and at hours prescribed by the Landlord and under the supervision of the Landlord, its agents or employees.

14. The Tenant shall not obstruct or otherwise interfere with the heating, air-conditioning or ventilation units contained in the Building.

15. The Tenant will not permit any of its servants, invitees, employees or agents to bring upon the Building or the Leased Premises any animals or bicycles.

16. The Tenant will keep the Leased Premises free of insects, rodents, vermin and other pests and, if the Landlord requires, retain the services of a pest extermination contractor designated by or acceptable to the Landlord, at the Tenant's expense.

17. The Tenant will not use the Leased Premises for lodging, sleeping or any illegal purpose.

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SCHEDULE "F"

DEFINITIONS

In this Lease and in the Schedules to this Lease the following definitions are applicable:

1. "Additional Rent" means all sums of money or charges required to be paid by the Tenant under this Lease (except Basic Rent and Sales Taxes) whether or not designated "Additional Rent" or payable to the Landlord.

2. "Alterations" means any repairs, replacements, decorations, Leasehold Improvements or other alterations made by or on behalf of the Tenant

to any part of the Leased Premises.

3. "Architect" means the architect, surveyor or space planner from time to time named by the Landlord. The decision of the Architect whenever required by this Lease (or requested by the Landlord) and any certificate prepared or approved by the Architect will be final and binding.

4. "Basic Rent" means the sums payable by the Tenant to the Landlord as set out in Section 3.2.

5. "Building" means the multi-storey office building erected or to be erected on the Lands and located in the City of Toronto, Province of Ontario, known municipally as 2 Carlton Street, from and including the lowest floor or level of the Building to and including the roof thereon, the Common Areas and Facilities, the Parking Garage, the Storage Areas, and the areas and facilities serving the Building, as determined by the Landlord, which areas and facilities may include, without limitation, lobbies, foyers and vestibules, sidewalks, storage and mechanical areas, janitor rooms, mail rooms, telephone, mechanical and electrical rooms, stairways, escalators, elevators, truck and receiving areas, driveways, loading docks and corridors and shall also include the Retail Area, the Office Area and those areas designated or intended by the Landlord to be leased or used for service, administration, management, safety and operational purposes.

6. "Business Taxes" means business taxes, license fees, personal property taxes or other similar assessments, taxes, rates or levies imposed by any taxing authority, in respect of any assets located in, use, enjoyment or occupancy of, or business carried on in the Leased Premises or any other portion of the Property.

7. "Capital Tax" is an amount determined by multiplying each of the "Applicable Rates" by the "Capital" and totaling the products. "Capital" is the amount of capital which the Landlord determines, without duplication, that is from time to time invested by the Landlord, the Owners or all of them, in acquiring, developing, expanding, redeveloping and improving the Property. Capital will not be increased by any financing or refinancing except to the extent that the proceeds are spent or invested directly as Capital. An "Applicable Rate" is the capital tax rate specified from time to time under any statute of Canada and any statute of the Province which imposes a tax in respect of the capital of corporations. Each Applicable Rate will be considered to be the rate that would apply if none of the Landlord or the Owners employed

capital outside of the Province. Where part of the capital of the Landlord or the Owners (or corporations that are considered to be related to or associated with any of them) is not taxable under a statute referred to above, that non-taxable capital will be apportioned by the Landlord and the Owners among

each of their respective assets and the assets of the related or associated corporations for the purpose of determining Capital.

8. "Common Areas and Facilities" means (a) those areas, facilities, utilities, improvements, equipment and installations in the Building which, from time to time, are not designated or intended by the Landlord to be leased to tenants of the Building, and (b) those areas, facilities, utilities, improvements, equipment and installations which serve or are for the benefit of the Property, whether or not located within, adjacent to, or near the Building and which are designated from time to time by the Landlord as part of the Common Areas and Facilities, including, without limitation, all areas, facilities, utilities, improvements, equipment and installations which are provided or designated from time to time by the Landlord for the use or benefit of the tenants of the Building, their employees, customers and other invitees in common with others entitled to their use and benefit.

9. "Fixtures" means all furniture, trade fixtures and equipment installed by the Tenant in the Leased Premises and not affixed in any manner thereto.

10. "Fixturing Period" means the period described in Paragraph (c) of the Basic Terms.

11. "Indemnifier" means the Person who has executed or agreed to execute the Indemnity Agreement that is attached to this Lease as Appendix "A".

12. "Landlord" means the party of the First Part and, in sections that contain a release or other exculpatory language in favor of the Landlord, includes its officers, directors, employees (while in the ordinary course of their employment) and agents.

13. "Landlord's Work" means all construction and other work referred to as "Landlord's Work" in Schedule "C" of this Lease.

14. "Lands" means the lands underneath, adjacent and appurtenant to the Building, as more particularly described in Schedule "A" attached to this Lease or as such Lands may be altered, expanded or reduced from time to time.

15. "Lease" means this agreement and all the terms, covenants and conditions set out herein, as amended from time to time in accordance with Section 13.2(c).

16. "Lease Year" means a period of twelve (12) consecutive calendar months, and in the case of the first Lease Year, if the Commencement Date is not the first day of a calendar month, plus that portion of the month between the Commencement Date and the last day of the month in which the Commencement Date occurs, inclusive. The last Lease Year shall terminate on the expiration or earlier termination of this Lease.

17. "Leased Premises" means the premises demised by this Lease.

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18. "Leasehold Improvements" means all items generally considered as leasehold improvements, excluding any Fixtures but including without limitation all installations, alterations and additions from time to time made, erected or installed in the Leased Premises by or on behalf of the Tenant, or any previous occupant of the Leased Premises or any portion thereof including, without limitation, all partitions however affixed and whether or not moveable, hearing, ventilating and air-conditioning systems, facilities and equipment, light fixtures, internal stairways and doors, and floor, wall and ceiling coverings.

19. "Market Rental" means, at any given time, the then current fair market net rental rate for net leases with similar terms (including, without limitation, the length of the term and the frequency of adjustments in rent, if any) entered into at arm's length for premises of similar size, age, quality and use, similarly improved and fixtured in similar office buildings in the City of Toronto, Province of Ontario.

20. "Mortgagee" means any mortgagee or chargee (including any trustee for bondholders), from time to time, of the Property or any part thereof, or of the Landlord's interest in the Property.

21. "Normal Business Hours" means the hours from 8:00 a.m. to 6:00 p.m. on Mondays to Fridays unless such a day is a statutory holiday.

22. "Office Area" means the aggregate of all portions of the Building from time to time designated by the Landlord for office purposes as from time to time altered, improved, reduced or expanded by the Landlord.

23 (a). "Operating Costs" means the total animmis incurred, paid or payable by or on behalf of the Landlord for the maintenance, operation, repair, replacement, management and administration of the Building and the Property, calculated as if the Building were at all times fully occupied and operational.

(b) Operating Costs include, without limitation and without duplication, the aggregate of:

(i) the total annual costs of insuring the Building and the improvements and equipment and other property servicing the Building from time to time as the Landlord, or the Mortgagee, from time to time determines;

(ii) the cost of cleaning (including carpet cleaning in the Common Areas and Facilities and window cleaning), snow removal, garbage and waste collection and disposal and pest control, including the cost of performing the work referred to in Section 5.2(a), and the cost of security, supervision and traffic control;

(iii) the cost of Utilities used in maintaining, operating, heating,

ventilating and air-conditioning the Building including all leasable premises therein, except to the extent separately metered and paid for directly by individual tenants;

(iv) salaries, wages and other amounts (including management fees and contributions and premium for fringe benefits, unemployment insurance, pension plans, Workers'

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Compensation and other similar contributions and premiums) paid or payable for all management, supervisory, and operational personnel including the Building manager, engineers, janitors, caretakers, security staff, management and all other related personnel (in each case, whether employed by the Landlord or pursuant to a third party management contract), engaged in the repair, care, maintenance, security, management and cleaning of the Property;

(v) the cost of the rental of any equipment and signs, and the cost of supplies, used in the maintenance and operation of the Property;

(vi) audit fees and the cost of accounting services incurred in the preparation of the statements referred to in this Lease and the financial statements related thereto, and in the computation of the rents and other charges payable by tenants of the Building;

(vii) the cost of all repairs and replacements (including repairs and replacements which are structural in nature or which are considered capital items in accordance with generally accepted accounting principles) to and maintenance (including, without limitation, landscaping maintenance) and operation of the Property and the systems, facilities and equipment serving the Building and all repairs and replacement undertaken by the Landlord for the general safety and benefit of the tenants of the Building or to reduce Operating Costs, and the cost of installing energy conservation equipment and systems and safety or life support systems in the Building or on the Property;

(viii) depreciation or amortization over the economic life, together with interest on the undepreciated or unamortized portion calculated at two (2) percentage points above the Prime Rate, of the, costs, including repairs and replacements, of the maintenance, cleaning, operating, heating, ventilating and air-conditioning equipment, master utility meters and all other fixtures, equipment and facilities comprising the Common Areas and Facilities, which in accordance with generally accepted accounting principles, are not fully expensed or deducted in the fiscal period in which they are incurred;

(ix) all Business Taxes, if any, from time to time payable by the Landlord with respect to the Building or the Property, and Capital Tax;

(x) the Market Rental attributable to premises occupied for management,

supervisory or administrative purposes in connection with the Building or the Property including, without limitation, premises leased or used for service, administration, management, safety and operational purposes; and

(xi) an administration fee of fifteen percent (15%) of the costs referred to above in this Paragraph 23.

From the total of the above costs, there shall be deducted or excluded, as the case may be:

(aa) all net recoveries which reduce Operating Costs received by the Landlord from tenants as a result of any act, omission, default or negligence of such tenants or by reason of a breach by such tenants under clauses in their respective leases requiring their contribution to Operating Costs);

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(bb) net proceeds received by the Landlord from insurance policies taken out by the Landlord to the extent that the proceeds relate to Operating Costs;

(cc) ground rent payable to any ground lessor if the Landlord is not the owner of the Lands and principal and interest payments on any mortgages, charges or other encumbrances registered against the title of the Property;

(dd) all net recoveries by the Landlord in respect of warranties or guarantees relating to the construction of the Building or any portion thereof, to the extent that repair costs in respect of the work covered by warranty or guarantee are included in Operating Costs;

(ee) contributions, if any, to the cost of maintaining and operating the Storage Areas made by tenants or occupants of such premises;

(ff) costs and expenses relating to the leasing of space or premises in the Building including leasing commissions, legal fees and advertising costs; and

(gg) contributions, if any, to the cost of the excess supply, to the Tenant or other tenants of the Building, of Utilities used in maintaining, operating, heating, ventilating and air-conditioning the Building.

24. "Owners" means the registered owns and holders of the freehold or leasehold title of the Property or any part thereof from time to time. In sections that contain a release or other exculpatory language in favor of the Owners, "Owners" includes the officers, directors, employees (while in the ordinary course of their employment) and agents of the Owners.

25. "Parking Garage" means all parking facilities, if any, located

within or adjacent to the Building or the Property, as they may from time to time be altered, improved, reduced or expanded by the Landlord in its sole discretion, including without limitation all entrances and exits thereto, access ramps and any delivery passages located therein.

26. "Person", if the context allows, includes any person, firm, partnership or corporation, or any group of persons, firms, partnerships or corporations or any combination thereof.

27. "Prime Rate" means the commercial lending rate of interest, expressed as an annual rate, that any chartered bank or trust company of the Landlord quotes from time to time at its principal office in Canada as the reference rate of interest (which is commonly known as its "prime rate"), and which serves as the basis upon which effective rates of interest are calculated for Canadian dollar loans made in Canada to its commercial customers with interest payable as a function of its prime rate.

28. "Property" means the Building and the Lands.

29. "Proportionate Share" means a fraction which has as its numerator the Rentable Area of the Leased Premises and as its denominator the Rentable Area of the Building.

30. "Rent" means Basic Rent and Additional Rent.

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31. "Rentable Area" means the rentable area calculated in accordance with the provisions of Schedule "D".

32. "Retail Area" means those portions of the Building, if any, located on the ground floor of the Building and from time to time designated by the Landlord for retail commercial purposes, as from time to time altered, improved, reduced or expanded by the Landlord in its sole discretion.

33. "Rules and Regulations" means the rules and regulations described in Section 13.1.

34. "G.S.T." means the amounts payable by the Tenant in accordance with Section 4.3(c).

35. "Storage Areas" means those portions of the Building, if any, from time to time designated by the Landlord for storage purposes, as from time to time altered, improved, reduced or expanded by the Landlord in its sole discretion.

36. "Structure" means the foundations, roof (including the roof membrane), exterior wall assemblies including weather walls and bearing walls,

sub floor and structural columns and beams of the Building and any other portions of the Building designated by the Landlord from time to time as Structure.

37. "Taxes" means all real property and commercial concentration taxes, rates, duties and assessments (including local improvement taxes), imposts, charges or levies, whether general or special, that are levied, rated, charged or assessed against the Property or any part thereof or Rent there from from time to time by any lawful taxing authority, whether federal, provincial, municipal, school or otherwise, and any taxes or other amounts which are imposed in lieu of, or in addition to, any such real property or commercial concentration taxes whether of the foregoing character or not and whether in existence at the Commencement Date or not, and any such real property or commercial concentration taxes levied or assessed against the Landlord or the Owners on account of their interest in or ownership of the Property or any part thereof, calculated on the basis of the Building being assessed as a fully leased and operational building, and the costs and expenses incurred for consulting, appraisal, legal and other services to the extent they are incurred in an attempt to minimize or reduce any of the real property or commercial concentration taxes referred to above.

38. "Tenant" means the party of the Second Part and if the Tenant is an individual, his heirs, executors and administrators, and in every case, its permitted successors and assigns. Any reference to "Tenant" includes, where the context allows, the servants, employees, agents, invitees and licensees of the Tenant and all others over whom the Tenant may reasonably be expected to exercise control.

39. "Tenant's Work" means all construction and other work required to be provided or performed in order to render the Leased Premises complete and suitable to open for business, including without limitations, all work designated as Tenant's Work in Schedule "C" of this Lease, but excluding those items specifically referred to as "Landlord's Work".

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40. "Term" means the period described in Paragraph (b) of the Basic Terms.

41. "Usable Area" means the usable area calculated in accordance with the provisions of Schedule "D".

42. "Utilities" means all gas, electricity, water, sewer, steam, fuel, power, telephone and other utilities used in or for or allocated by the Landlord to the Building or the Leased Premises, as the case may be.

APPENDIX "B"

SPECIAL PROVISIONS

(a) Special Provisions (IF APPLICABLE):

RENT FREE PERIOD

Notwithstanding anything to the contrary, Basic Rent shall not accrue or be payable during the first four (4) months of the Term. The Tenant shall, however, during such periods throughout the Term, be obligated to pay all amounts due hereunder as Additional Rent and any other charges payable under this Lease.

AS IS

The Tenant shall accept the Leased Premises from the Landlord in an "as is" condition and the Landlord shall not be required to do any work of any kind in the Leased Premises in order to prepare them for the Tenant's use and occupancy, save and except that the Landlord warrants and represents that all services provided to the Leased Premises by the Landlord (Heating, Air-conditioning etc.) will be free from any defects. In the event that any defects occur, Landlord hereby undertakes to repair such defects forthwith upon notification by the Tenant.

COMMENCEMENT DATE AND ADVANCED OCCUPANCY

Notwithstanding the Commencement Date set out herein, the Landlord may advance the Commencement Date by giving written notice to the Tenant of the Advanced Commencement Date to the Tenant at least 30 days prior to same.

PARKING

The Tenant shall have the use of the surface parking lot designated for the Building based on the ratio of three (3) stalls per 1,000 square feet leased throughout the Term of the Lease at no additional cost to the Tenant.

RESTORATION

Notwithstanding anything contained herein, the Tenant shall not be responsible for restoration of the Leased Premises or removal of the existing or approved leasehold improvements in the Leased Premises (save for Tenant's trade fixtures) at the expiry of the lease term or any extensions; however, this does not absolve the Tenant's responsibility to repair damage and maintain the Leased Premises in good repair as outlined herein.

MEASUREMENT

Prior to the Commencement Date, the Landlord warrants and represents that it shall provide a Certificate of Measurement from the Landlord's architect or certified space planner verifying the Rentable Area of the Leased Premises and the Rent shall be adjusted accordingly.

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It is understood and agreed that the Rent payable hereunder shall be payable on the Rentable Area measured in accordance with BOMA industry standards.

EXTENSION OF TERM

If:

(i) the Tenant pays the Rent as and when due and punctually observes and performs its covenants, obligations and agreements under and in accordance with the terms of this Lease;

(ii) the Tenant is not in breach or default under the terms of this Lease;

(iii) the Tenant gives the Landlord not less than six (6) months notice prior to the expiry of the initial Term of its intention to extend the Term; and

(iv) the Tenant is ViAlta.com, Inc. and is itself in occupation of and conducting business in the whole of the Leased Premises;

then the Tenant will have the right to extend the Term upon the expiry of the initial Term for one further period of two (2) years (the "Extended Term") upon the same terms and conditions as are set out in this Lease, except that:

(v) there will be no further right to extend the Term;

(vi) any Fixturing Period, or requirement on the Landlord's part to do any Landlord's Work or pay to the Tenant any construction allowance, inducement, loan or other amount in connection with this Lease or improvements installed in the Leased Premises, set out in this Lease, shall not apply to the Extended Term;

(vii) if the Landlord requires, the Tenant will promptly execute an extension agreement prepared by the Landlord at the Tenant's expense, giving effect to the Extended Term; and

(viii) the annual Basic Rent shall be mutually agreed upon between the Landlord and the Tenant based upon the Market Rental of the Leased Premises, provided that the Basic Rent shall in no event be less than the annual Basic

Rent payable by the Tenant for the last twelve (12) months of the initial Term; and provided further that if the parties are unable to agree as to such Basic Rent by no later than three (3) months prior to the expiry of the initial Term, then the Basic Rent shall be determined by arbitration in accordance with the Arbitrations Act of Ontario. If the annual Basic Rent has not been determined by the commencement of the Extended Term, the Tenant shall pay Basic Rent at the rate applicable to over holding as set out in Section 13.3, and within ten (10) days after the Basic Rent for the Extended Term is determined, the Tenant shall pay to the Landlord any amount retroactively owing from the commencement of the Extended Term.]

If the Tenant fails to exercise the foregoing option to extend the Term in accordance with this Section of Appendix "B", or if the other conditions set out in this Section of Appendix "B" are not satisfied, this option to extend shall be null and void.

THE LEASE is made the 2nd day of August Two thousand.

BETWEEN

- (A) The Company detailed as the Landlord in Part I of the First Schedule hereto (hereinafter called "the Landlord" which expression shall where the context permits includes its successors and assigns) of the one part; and
- (B) The person or Company (as the case may be) detailed as the Tenant in Part I of the First Schedule hereto (hereinafter called "the Tenant" which expression shall where the context permits includes its personal representatives and successors) of the other part.

WHEREBY IT IS AGREED AS FOLLOWS:

1. The Landlord shall let and the Tenant shall take ALL THAT the premises ("the Premises") forming part of all that building ("the Building") which Premises and Building are more particularly described and set out in Part II of the First Schedule hereto together with all rights easements and appurtenances thereto belonging or usually held or engaged herewith and also with the right in common with the Landlord and all other persons having a like right to the use of the entrances, exits, staircases, landings, passages, corridors, escalators, lifts and areas of the Building intended for common use during business hours of the Tenant except in so far as the Landlord may from time to time restrict such use and together also with the use in common as aforesaid of the escalators and the lifts in the Building (if any and whenever the same shall be operating) for the term in Part III of the First Schedule hereto ("the Term") YIELDING AND PAYING therefore throughout such rent per calendar month and other charges as are from time to time payable in accordance with the provisions set out in Part I and Part II of the Second Schedule hereto which sums shall be payable exclusive of rates and in advance clear of all deductions on the 1st day of each and every calendar month the first and the last of such payments to be apportioned according to the number of days in the month included in the Term unless otherwise determined by the Landlord. The first month's rental, Management and Air-conditioning Fees (hereinafter described) shall be paid on the signing of this Agreement.

2. The Tenant hereby covenants with the Landlord as follows:

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- (1) To pay the rent hereby provided for on the days and in the manner aforesaid without any deduction.
- (2) To pay the management and air-conditioning fees from time to time payable calculated in accordance with Part II of the Second Schedule hereto.
- (3) To pay and discharge punctually all the charges for gas, water, telephone, electricity and other outgoings of an annual or recurring nature throughout the Term and to make all necessary deposits for the supply of electricity and other services to the Premises.

- (4) To pay and discharge punctually all government rent, rates, taxes, charges, impositions and outgoings now or at any time hereafter during the Term chargeable taxed or assessed upon the Premises or upon the owner or occupier thereof (Property Tax and expenses of a capital or non-recurring nature alone excluded). Without prejudice to the generality of this clause the Tenant shall pay all rates imposed on the Premises in the first place to the Landlord who shall settle the same with the Government of the Hong Kong Special Administrative Region and in the event of the Premises not yet having been assessed to rates the Tenant shall pay the Landlord a sum equal to the rates which would be charged by the Government of the Hong Kong Special Administrative Region on the basis of a rateable value equal to twelve months' rent payable by the Tenant on account of the Tenant's liability under this clause subject to adjustment on actual rating assessment being received from the Government. If for any reason whatsoever the rateable value of the Premises is increased to a figure in excess of the rateable value as at the date hereof or if the rates payable shall be increased then and in any such case the Tenant shall during the continuance of the term of this Agreement bear such increase in rates.
- (5) (a) To submit all fitting out plans to the Landlord for approval (which approval shall not be unreasonably withheld or delayed) and not to commence any decoration work thereon until the written approval of the Landlord of such plans has been obtained. In particulars, the Tenant shall fit out the interior of the Premises in accordance with the Tenant's Fit-out Guide from time to time made, issued or amended by the Landlord or its agent or the management company of the Building ("the Manager") in a good and proper

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workmanlike fashion using good quality materials and in all respects in a style appropriate to a first class commercial center.

- (b) The Tenant shall employ, at his own expenses, only the Landlord's nominated consultants or contractors or such contractors as previously approved by the Landlord (such approval not to be unreasonably withheld or delayed) for the purpose of design appraisal, carrying out, installing and maintaining all such works associated with all electrical and mechanical engineering works and arrangements including but not confined to sprinkler system, security system, plumbing and drainage system and the air-conditioning system and all their ducting and controls unit in respect of the Premises.
- (c) In carrying out any approved work hereunder, the Tenant shall and shall cause his servants agents contractors and workmen to cooperate fully with the Landlord and with other tenants or contractors carrying out any work in the Building. The Tenant shall obey and cause his servants agents contractors and workmen to obey and comply with all reasonable instructions and directions which may be given

by the Landlord its servants agents or other authorized representatives in connection with the carrying out of such work.

(6) To keep the interior of the Premises including all the flooring and interior plaster or other finishes or rendering to walls, floors, and ceilings to the Premises and the Landlord's fixtures and fittings therein (if any) including all doors, windows, sprinkler system, electrical and/or gas or other utility installations and wiring plant and ducting and internal decorations in good, clean, repair and condition (fair wear and tear excepted) throughout the Term and to maintain the same at the expense of the Tenant and to deliver up the same to the Landlord as the expiration or sooner determination of the term in like condition. In particular, but without in any way limiting the foregoing:

(a) To reimburse to the Landlord the reasonable cost of replacing all broken or damaged windows of the Premises whether the same be broken or damaged through the act default or negligence of the Tenant or owing to circumstances beyond the control of the Tenant.

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(b) To repair or replace any electrical installation or wiring within the Premises if the same becomes dangerous or unsafe or if so reasonably required by the electricity power company or competent government authority to do so. The Tenant shall permit the Landlord or its agents to test the installations or wires in the Premises at any time upon request (except in the case of emergency) being made.

(c) To use the toilets and all apparatus as are located within the Premises or elsewhere if used by the Tenant in a clean tidy, hygienic and tenantable manner and in proper repair and condition at all times during the Term to the satisfaction of the Landlord and for the purposes and manner that they are intended for.

(d) To keep windows of the Premises and the Premises itself including all external windows lights at all times in a clean and sanitary state and condition.

(e) To reimburse to the Landlord the reasonable cost of replacing any damaged, broken, defective or burned out electric light bulbs, tubes and globes in the Premises which may be provided by the Landlord.

(f) To employ a cleaning contractor at its sole expense for cleaning the Premises as may be reasonably approved by the Landlord.

(7) To keep in good order and condition all the drains and pipes in the Premises or elsewhere if used by the Tenant and to pay on demand to the Landlord or its agent the cost incurred by the Landlord in cleaning, clearing, repairing or replacing any of the drains piping or other plumbing choked or blocked owing to the careless or improper use by the Tenant or its servants, agents,

assistance, licensees, customers, workmen or visitors.

- (8) (a) To be responsible (at its own reasonable expense) for the removal of garbage and refuse from the Premises to such location as shall be reasonably specified by the Landlord or its agents from time to time and to use only that type of refuse container as is reasonably specified by the Landlord or its agents from time to time.

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- (b) In the event of the Landlord providing a collection service for refuse and garbage of the Building the same shall be used by the Tenant to the exclusion of any other similarly service and the use of such service provided by the Landlord shall be at the sole cost of the Tenant.
- (c) To render full co-operation to the cleaning contractors and the neighbouring tenants with a view to keeping the entire Premises at all times in a neat and tidy condition.
- (9) To be responsible for all electrical wiring to the light fittings and to the other electrical outlets installation in the Premises and the connection thereof to the Electricity Authority meters, and to make his own arrangements with The Hong Kong Telephone Company Limited with regard to the installation of the telephones in the Premises, but the installation of lines therefore outside the Premises must be in accordance with the Landlord's directions. All mechanical and electrical works must be carried out by the Tenant's contractor approved by the Landlord (such approval not to be unreasonably withheld or delayed) only at the Tenant's own reasonable expense.
- (10) To ensure at all times that all fire alarms, fire fighting equipment, roller shutters (if any) and other equipment for security purposes (if any) provided by the Landlord shall not be disrupted, interrupted, damaged or caused to be defective through the act, default or neglect of the Tenant, his servants, agents or licensees.
- (11) To take all reasonable precautions to protect the Premises or any part thereof against damage by rain wind storms or typhoons.
- (12) To ensure that his own security system within and at the entrance of the Premises is at all times compatible with and linked up to the security system for the Building provided and operated by the Landlord (if any).
- (13) (a) To permit the Landlord, its servants or agents on reasonable notice and at reasonable times to enter and view the Premises, to carry out any necessary repairs to the Building or any part thereof Provided that in the event of any emergency the Landlord, its servants or agents may enter without notice and forcibly if need be and, during the last three months of

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the Term and with the consent of the Tenant (such consent shall not be unreasonably withheld) and at a mutually convenient time, to show the Premises or any part thereof to prospective tenants or during the Term and with the consent of the Tenant (such consent shall not be unreasonably withheld) and at a mutually convenient time to show the Premises to prospective purchasers and the Landlord shall be at liberty to affix and maintain without interference upon any external part of the Premises a notice stating that the Premises are to be let or to be sold and such other information in connection therewith as the Landlord shall reasonably require.

- (b) To permit the Landlord and its other tenants and all persons authorised by the Landlord to have the free and uninterrupted use (in common with the Tenant) of all gas and water pipes electricity and other wire flues and drains in through and under the Premises.
- (14) On receipt of any notice from the Landlord or its authorised representatives specifying any works or repairs which are required to be done by the Tenant in respect of the Premises and which are the responsibility of the Tenant hereunder, forthwith to put in hand and execute the same with all possible dispatch and without any delay.
- (15) If the Tenant shall at any time make default in the performance of any of the terms and agreements herein contained for or relating to the repair decoration treatment preservation protection or condition of the Premises, then to permit the Landlord and all persons authorised by the Landlord to enter upon the Premises and repair decorate treat preserve protect and make good the same at the expense of the Tenant (but no such entry repair decoration treatment preservation protection and making good shall prejudice the Landlord's right of re-entry under the provisions hereinafter contained) and to repay on an indemnity basis to the Landlord on demand the cost of such repair decoration treatment preservation protection and making good including surveyor's and solicitor's fees and charges incurred by the Landlord in respect thereof.
- (16) Not to do or suffer anything to be done on the Premises which may injure the image of the Building as first class commercial center and to keep the Premises

open for business at all reasonable times of the year during the normal business hours. Without prejudice to the generality of the foregoing any suspension of the Tenant's business for a period of more than 7 consecutive days all of which not being bank or public holidays or otherwise without the prior consent of the Landlord (such consent not to be unreasonably withheld or delayed) shall constitute a material breach of this provisions entitling the Landlord to determine this Agreement and to regain possession of the Premises.

- (17) To load and unload goods and food and food containers only at such times and through such entrances and by such service lifts (if any) as shall be reasonably designated by the Landlord for this purpose from time to time.
- (18) To give notice to the Landlord or its agents of any damage that may be suffered to the Premises and of any accident to or patent defects in the water pipes, gas pipes (if any) electrical wiring or fixtures or other facilities provided by the Landlord provided always that the said facilities of and in the Premises shall be maintained at the Tenant's costs.
- (19) To pay to or reimburse to the Landlord the reasonable cost of any damage caused to any part of the common areas of the Building occasioned by the Tenant, his licensees, employees, agents or contractors or any other person claiming through or under the Tenant.
- (20) To observe and perform the covenants terms and conditions contained in any Government Lease or Conditions and the Deed of Mutual Covenant (if any) under which the Landlord holds the land on which the Building is erected from the Government and the provisions of the Government Lease or Conditions and the Deed of Mutual Covenant (if any) shall in so far as the same relate to the Premises shall be deemed to be incorporated herein.
- (21) To observe perform and comply with all ordinances, Regulations, By-laws and rules and all lawful requirements of Government in force from time to time or the amendments thereof in connection with the Premises or the Tenant's business therein and in particular but without limiting the generality of the foregoing to comply with all the provisions of the Fire Service Ordinance, Cap.95 and the regulations made thereunder and any statutory re-enactment or modification

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thereof.

- (22) To observe and to comply with the Tenant Handbook and Building Rules or other regulations or requirements stated in notices or announcements from time to time made, issued or amended by the Landlord or its agent or the Manager of the Building for the maintenance and management of the Building including the time and arrangement for operating the equipment, escalators, lighting and the use of the entrance and passage ways.
- (23) Not to block up darken or obstruct or obscure the windows of the Premises without first having obtained the express written consent of the Landlord which consent may be given subject to such conditions as the Landlord may in its absolute discretion think fit.
- (24) Not to use or permit or suffer the Premises or part thereof to be used for any purpose other than those stipulated in Part IV of the First Schedule of this Agreement and without prejudice to the foregoing to obtain any license approval or permit required by any Government or other competent authority in connection with the Tenant's use or occupation of the Premises prior to the

commencement of the Tenant's business and to maintain the same in force during the currency of this tenancy and to indemnify the Landlord against the consequences of a breach of this provision. For the avoidance of doubt, the Landlord gives no warranty as to the fitness of the Premises for the specific purposes aforesaid.

- (25) Not to use the Premises or allow the same to be used for any illegal or immoral purpose.
- (26) Not to do or permit to be done in or upon the Premises or in or upon the Building or any part thereof anything which may be or become a nuisance or annoyance or cause damage or disturbance to the Landlord or to any of the other tenants of the Building or the persons visiting the same.
- (27) Not to use the Premises as sleeping quarters or as domestic premises within the meaning of any ordinance for the time being in force or the amendments thereof from time to time.

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- (28) Not to produce or suffer or permit to be produced at any time in the Premises any music or noise (including sound produced by broadcasting from television, radio, tape recorders or any other equipment or instrument capable of producing or reproducing music and noise) which may reasonably be regarded as a nuisance or annoyance or cause damage or disturbance to or complaint from the Landlord or to any of the other occupants or tenants of the Building.
- (29) Not to use the Premises for the manufacture, storage of goods or merchandise other than for the purposes of the business of the Tenant, nor to keep or store or cause or permit to be kept or stored any arms, ammunition, gun-powder, salt-petre, kerosene or other explosive combustible substance or any goods contrary to the provisions of the Dangerous Goods Ordinance or any amendment thereto or enactment replacing the same and the Regulations applicable thereto.
- (30) Not to prepare or permit or suffer to be prepared any food in the Premises save and except to heat up food and/or snacks in the Premises and not to cause or permit any offensive or unusual odors to be produced upon, permeate through or emanate from the Premises.
- (31) Not to make any alteration or addition of any kind to the external parts of the Premises without the prior written consent of the Landlord.
- (32) (a) Except with the consent of the Landlord as aforesaid, not to make or permit any alterations or additions and not to put up any fixtures, partition or to erect on any part of the Premises nor to pull down, alter or remove any portions of the doors windows partitions fixtures and fittings thereon nor to make any alternations in the architectural features or facing or to the electrical installation or wiring thereof nor to install any air-conditioning unit, plant, apparatus or machinery nor to cut maim injure damage mark or deface or permit or

suffered to be cut maimed injured or damaged marked or defaced any structures, fixtures, decorations and installations within the Premises or outside the Premises including air-conditioning units, cloakroom, service pantries, halls, passages, staircases, drainage, wells, walls, ceilings, and to pay on demand to the Landlord the cost and expenses reasonably incurred by the Landlord in repairing making good such damage or cleaning the same. At the expiration or sooner

determination of this Agreement all such alternations, decoration or partitions so erected or installed by the Tenant shall at the option of the Landlord become the property of the Landlord without payment of any compensation to the Tenant. If the Landlord decides not to exercise the option, the Tenant shall at his own expense remove all such alternations, decoration or partitions so erected or installed by the Tenant and restore the Premises to their original tenable state and make good all damages caused by such removal.

- (b) In carrying out any approval work in accordance with the provisions of this clause the Tenant, his servants agents contractors and workmen shall obey and comply with all instructions and directions which may reasonably be given by the Landlord or other authorised representative in connection with the carrying out of such work.
- (c) Any fees or expenses reasonably incurred by the Landlord in connection with the giving of consent hereunder shall be borne by the Tenant.
- (d) Not to make any alterations or additions to the electrical and mechanical installation, air-conditioning ducting, the plumbing and drainage system and sprinkler system of the Premises unless and until the same shall first be approved by the Landlord (such approval not to be unreasonably withheld or delayed). The Tenant shall bear such consultation fees as may be reasonably charged by the Landlord's consultants in respect of such approval and further the Tenant shall at its reasonable expense employ the consultants and the contractors as approved by the Landlord (such approval not to be unreasonably withheld or delayed). The Tenant shall bear such consultation fees as may be reasonably charged by the Landlord's consultants in respect of such approval and further the Tenant shall at its reasonable expense employ the consultants and the contractors as approved by the Landlord (such approval not to be unreasonably withheld or delayed) to carry out such approved alternations or additions and upon determination of the tenancy if upon being reasonably required by the Landlord the Tenant shall forthwith also employ such consultants and contractors at his own reasonable expense to remove all such alternations and additions.

- (33) Not without the prior written approval of the Landlord (which approval shall not be unreasonably delayed or withheld) to drive or insert or permit or suffer to be driven or inserted any nails, screws, hooks, brackets or similar articles into the ceiling, doors, walls, window, beams or floor of the Premises.
- (34) To reimburse to the Landlord or its agent the reasonable cost of making good replacing or removing any air-conditioning units or sprinkler system or other part of such apparatus or installation within the Premises which is damaged or rendered defective by the Tenant and which the Tenant fails to make good replace or remove within a reasonable time.
- (35) Not to install any electrical wiring in the Premises or any part thereof without the previous written consent of the Landlord (such consent not to be unreasonably withheld or delayed) and in accordance with the provisions hereof and in carrying out the work to the electrical installation and/or wiring the Tenant shall use only a contractor previously approved by the Landlord in writing for the purpose (such approval not to be unreasonably withheld or delayed).
- (36) (a) Not to exhibit, affix, put up, or display within or on the exterior of the Premises or upon any part of the Building adjoining the Premises or to or through any windows thereof any sign or sign board, neon illumination decoration, shutter, grill, notice or notice board, advertisement or any other articles or thing whatsoever whether illuminated or not which may be visible from outside the Premises unless the size and design are first approved in writing by the Landlord (such approval not to be unreasonably delayed or withheld) but the Landlord shall be entitled to impose conditions and request for payment of fees for granting such approval and the Landlord shall have the right to remove at the reasonable cost and expenses of the Tenant any signboard, sign decoration or thing which shall be affixed put up exhibited or displayed without the prior approval of the Landlord.
- (b) Not to display any name-plate or signboard other than that of the Tenant at the entrance to the Premises, the size and position of such name-plate or signboard shall be subject to the approval of the Landlord (such approval not to be unreasonably withheld or delayed). To pay the Landlord or its

agents upon demand the reasonable cost of affixing, repairing, altering or replacing as necessary the Tenant's name and/or the trade name of the Tenant as set out in Part IV of the First Schedule hereto on the Director Board (if any) provided by the Landlord.

- (37) Not without the previous written consent of the Landlord (such consent not to be unreasonably withheld or delayed), to alter the

existing locks, bolts and fittings on the entrance doors to the Premises, nor to install any additional locks, bolts or fittings thereon.

- (38) Not to encumber or obstruct or permit to be encumbered or obstructed with any boxes, packaging or other obstruction of any kind of nature of the entrances, staircases, landings, passages, lifts, lobbies or other parts of the Building in common use and not to leave rubbish or any other article or thing in any part of the Building not in the exclusive occupation of the Tenant. In addition to any other remedies the Landlord may have hereunder in the event of the Tenant acting in breach of this Clause, the Landlord or its servants may with or without any prior notice to the Tenant remove and dispose of the objects causing such obstruction at the sole risk of the Tenant and prior to the same being returned to the Tenant the Tenant shall pay the Landlord's reasonable expenses for removing and disposing the same.
- (39) Not to lay install affix or attach any wiring, cables or other article or thing in or upon any of the entrances, staircase, landings, passageways, lobbies or public areas.
- (40) Not to sign underlet or otherwise part with the possession of the Premises or any part thereof in any way whether by way of subletting lending sharing or other means whereby any person or persons not a party to this Agreement obtains the use or possession of the Premises or any part thereof irrespective of whether any rental or other consideration is given for such use or possession and in the event of any such transfer sub-letting sharing assignment or parting with the possession of the Premises or any part thereof (whether for monetary consideration or not) this Agreement shall at the option of the Landlord absolutely determine and the Tenant shall forthwith surrender and vacate the Premises upon receipt of notice to that effect from the Landlord. This tenancy shall be personal to the Tenant

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named herein and without in any way limiting the generality of the foregoing the following acts and events shall, unless previously approved in writing by the Landlord be deemed to be breaches of this Clause:

- (a) In the case of a tenant which is a partnership the taking in of one or more new partner whether on the death or retirement of an existing partner or otherwise.
- (b) In the case of a tenant who is an individual (including a sole surviving partner or a partnership tenant) the death insanity or disability of that individual to the intent that no right to use possess occupy or enjoy the Premises or any part thereof shall vest in the executors administrators personal representatives next of kin trustee or committee of any such individual.
- (c) In the case of a tenant which is a corporation, any reconstruction amalgamation merger voluntary liquidation or change in the person or persons who owns or own a majority of its voting shares or who otherwise has or have

effective control hereof.

- (d) The giving by the Tenant of a Power of Attorney or similar authority where the donee of the Power obtains the right to use possess occupy or enjoy the Premises or any part thereof or does in fact use possess occupy or enjoy the same.
 - (e) The change of the Tenant's business name without the previous written consent of the Landlord which consent shall not be unreasonably withheld or delayed.
- (41)
- (a) Not to keep or permit or suffer to be kept any animals or pets inside the Premises and to take all such steps and precaution to the satisfaction of the Landlord to prevent the Premises or any part thereof from becoming infested by termites, rats, mice, roaches or any other pests or vermin.
 - (b) At every interval of three months or at such period as may be agreed between the parties to engage a pest control company as duly approved by

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the Landlord to inspect and examine the Premises against pest and to pay for all expenses incurred in the inspection for and the extermination of the pest.

- (42) Not to permit any touting or soliciting for business or distributing of any pamphlets, notices or advertising matter to be conducted outside or near the Premises or in any part of the Building by any of the Tenant's servants, agents or licensees.
- (43) Not to move any safe, heavy machinery, equipment or fixtures (except usual office equipments) in and out of the Building or install or permit or suffer to be installed in the Premises any such safe, heavy machinery, equipment or fixtures (except usual office equipments) without first obtaining the Landlord's written consent (such consent not to be unreasonably withheld or delayed). The intention being that no weight shall be imposed in any part of the flooring in excess of that for which was designed. The Landlord shall be entitled to prescribe the maximum weight and permitted location in such safe, heavy machinery, equipment or fixtures. The Tenant shall keep the Landlord indemnified against all damages sustained by any person or property and of any damages or moneys paid out by the Landlord in settlement of any claim or judgment as well as legal costs incurred in connection therewith and all costs incurred in repairing any damage to the Premises or the Buildings and its appurtenances resulting from movement of any safe, heavy machinery, equipment or fixtures of the Tenant.
- (44) Not to erect affix install or attach in or on or at the door or doors or entrance or entrances of the Premises any metal grille or shutter or gate which shall in any way contravene the regulations of the Fire Services Department or other competent authority concerned from time to time in force and/or which may in any way impede the free and interrupted passage over through

and along any of the entrances, staircase, landings, passages, lifts, lobbies or other parts of the Building in common use. The design color and installation of any metal grille or shutter or gate shall be subject to the prior written approval of the Landlord (such approval not be unreasonably withheld or delayed).

- (45) To quietly yield up the Premises including all the Landlord's fixtures and fittings

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therein (if any) in good clean and tenantable condition fair wear and tear excepted in accordance with the stipulations herein contained and to the satisfaction of the Landlord or the Landlord's representatives notwithstanding any rule of law or equity to the contrary Provided That all the Tenant's fixtures, fittings, additions, partitioning plants or equipment put up or installed by the Tenant whether with or without the Landlord's consent shall, if so required by the Landlord be removed by and at the expiration or sooner determination of this tenancy and in such event the Tenant shall make good any damage in a good and workmanlike manner all damage caused by such removal and dismantlement And thereupon to surrender to the Landlord all keys giving access to all parts of the Premises held by the Tenant and to remove at the Tenant's expense all lettering and characters from all the doors, walls, or windows of the Premises and make good any damage caused by such removal and dismantlement at the expiration or sooner determination of this tenancy. If the Tenant shall make any default in complying with this clause, it shall be lawful for the Landlord (but without prejudice to the Landlord's other rights against the Tenant under this Lease) to remove and dismantle at the expense of the Tenant such fixtures, fittings, additions, machinery, lettering and characters and the expense of such removal and dismantlement shall be a debt owed by the Tenant to the Landlord and the Landlord shall be entitled to deduct such expense from the deposit maintained by the Tenant shall pay to the Landlord any shortfall therefore on demand.

- (46) Not to affix to the external part of the Premises or the Building or any part thereof any aerial or similar apparatus.
- (47) Not to name or include in the name of the business or company operated by the Tenant the name of "No. 238 Nathan Road" or any name similar thereto and not at any time to change the name of the business or company to include any such name as aforesaid.
- (48) Not to conduct or permit any auction fare bankruptcy close out or similar sale of things or properties of any kind to take place on the Premises.

3. The Landlord hereby covenants with the Tenant as follows:

- (1) That the Tenant paying the rent and other charges hereby stipulated and observing

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the stipulations herein contained and on the Tenant's part to be observed and performed shall peacefully hold and enjoy the Premises during the Term without any interruption by the Landlord or any person lawfully claiming under or in trust for it.

- (2) To pay the Property Tax in respect of the Premises during the Term.
- (3) To pay for all capital expenses and expenses of a non-recurring nature in respect of the Premises and to be responsible for the repair and maintenance of the main structure of the Premises PROVIDED THAT the Landlord shall not be liable to the Tenant under this Clause unless and until written notice of any defect or want of repair has been given by the Tenant to the Landlord and the Landlord shall have failed to take any action after the lapse of a reasonable time from the date of serve of such notice.

4. PROVIDED ALWAYS and its is hereby expressly agreed as follows:

- (1) If the rent and other charges hereby stipulated or any part thereof shall be unpaid for fifteen days after becoming payable (whether legally demanded or not) or if the Tenant its servants agents shall fail or neglect to perform or observe any of the terms or conditions herein contained and on the Tenant's part to be performed or observed or if the Tenant or other person in whom for the time being the term of tenancy shall be vested shall become bankrupt or in the case of a limited company shall go to liquidation or a petition in bankruptcy against the Tenant, or a petition for the winding up against the Tenant if it is a limited company, shall have been filed or if the Tenant shall enter into any composition or arrangement with creditors or shall suffer execution to be levied on the Tenant's goods then and in any of the said cases it shall be lawful for the Landlord at any time thereafter with or without notice being given to the Tenant to determine this Agreement and to re-enter upon the Premises or any part thereof in the name of the whole but without prejudice to any right of action of the Landlord in respect of any breach by the Tenant of any of the terms and/or conditions herein contained. If the Landlord elects to give notice to the Tenant then a written notice served by the Landlord on the Tenant or left at the last known registered office or other address of the Tenant or at the Premises to the effect that the Landlord thereby exercises the power of determination and/or re-entry hereinbefore contained shall be a full and sufficient exercise of such power

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notwithstanding any statutory or common law provision to the contrary. Without prejudice to other rights and remedies of the Landlord hereunder, the Landlord is entitled to charge and the Tenant shall pay interest on the said arrears of rent or outstanding amount of rates, management fees and all outgoings thereof at the best lending rate of The Hong Kong and Shanghai Banking Corporation plus five per cent per annum from the date the same are due until payment. All costs and expenses incurred by the Landlord in demanding the rent and other said charges (if the Landlord elects to demand) with a view to exercising the said rights or remedies or attempting to do the same shall be repaid by the Tenant on a full indemnity basis and shall be recoverable

from it as a debt PROVIDED ALWAYS THAT the Landlord shall be under no obligation to demand the rent or other said charges or to serve the said notice before the Landlord exercises the said rights and remedies.

- (2) Not without the prior written consent of the Landlord (which may be given subject to conditions and payment of Landlord's approval costs) to install additional air-conditioning plant machinery or equipment in the Premises ("the said additional air-conditioning plant") and in any event no air-conditioning plant machinery or equipment (including in particular cooling powers) or any part thereof shall be installed or extended outside the Premises and/or the external walls of the Building or any part thereof. Any application for consent under this Clause shall be supported by plans showing the location and size of the said additional air-conditioning plant and the approval from the relevant Government Authority for such installation (if necessary); in such case, the Tenant shall install its own electricity and water meters for the said additional air-conditioning plant (if necessary) and shall pay all charges for electricity and water consumed in respect of the said additional air-conditioning plant PROVIDED THAT the Tenant shall upon the expiration or sooner determination of this Agreement retain the said additional air-conditioning plant if the Landlord so wishes without payment of any compensation or forthwith remove such additional air-conditioning plant and all associated structures, parts and works whatsoever and make good all damage and injury caused to the Premises or any part thereof as a result of such removal at the Landlord's sole discretion and demand and at the expense in all respects of the Tenant and if the Landlord shall be at liberty to deduct from the deposit(s) paid hereunder the cost of such removal and any shortfall thereof shall be recoverable as a debt from the Tenant by the Landlord.

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- (3) Acceptance of rent or other costs or charges by the Landlord shall not be deemed to operate as a waiver by the Landlord of any right to proceed against the Tenant in respect of any breach by the Tenant of any of its obligations under this Agreement.
- (4) The Tenant shall insure and keep adequately insured the Premises against any fire, third party's or Public Liability claim. The Tenant shall not do or permit to be done anything whereby the policy or policies of insurance on the Premises against damage by fire or against claims by third parties for the time being subsisting may become void or voidable or whereby the rate of premium or premia thereon may be increased, and to repay to the Landlord on demand all sums paid by the Landlord by way of increased premium or premia the Building (if any) and all expenses incurred by the Landlord in and about any renewal of such policy or policies arising from or rendered necessary by a breach of this Clause by the Tenant or its agent, contractors or licensees.
- (5) (a) The Landlord shall not be under any liability whatsoever to the Tenant in respect of any damage sustained by the Tenant in respect of any damage sustained by the Tenant caused by the suspension of the lift or escalator service

or the defective working thereof or through or in any way owing to the overflow of water and/or sewage from any premises or any part of the Building but nothing herein shall be deemed to restrict the Tenant's rights to proceed against any other party for the damage occasioned thereby.

- (b) The Tenant shall fully indemnify the Landlord against all claims demands actions and legal proceedings whatsoever made upon the Landlord in respect of any loss and damage by fire to any person whomsoever caused by or in any way owing to the negligence of the Tenant.
- (c) The Tenant shall fully and effectually indemnify the Landlord against all claims demands actions and legal proceedings whatsoever made against the Landlord in respect of any damage to any person or property whosoever caused by the overflow of water sewage or effluent from the Premises caused by or in any way owing to the negligence of the Tenant.

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- (6) The Tenant further agrees that if any damage is caused to the Landlord or to any person whomsoever directly or indirectly through any defective or damaged condition of any part of the interior of the Premises (including doors windows and Landlord's fixtures therein) (save and except defects of an inherent or latent or structural nature) the Tenant shall be wholly responsible therefore and shall make good the same by payment or otherwise and shall fully and effectually indemnify the Landlord against all claims demands actions and legal proceedings whatsoever made upon the Landlord by such person in respect thereof.
- (7) If the Premises or any part thereof shall be destroyed or damaged by typhoon fire or force majeure (not attributable directly or indirectly to any act or default of the Tenant) as to be uninhabitable or if at any time during the continuance of this tenancy the Premises shall be condemned as a dangerous structure or a demolition order or closing order shall become operative in respect of the Premises the rent hereby stipulated or a proportionate part thereof according to the damage sustained or order made shall cease to be payable from the time when the Premises shall cease to be habitable or the order shall be made until the Premises shall gain be fit for habitation and use and accessible PROVIDED THAT the Landlord shall be under no obligation to repair or reinstate the Premises or any part thereof so destroyed or damaged and PROVIDED FURTHER THAT should the Premises not have been reinstated in the meantime either the Landlord or the Tenant may at any time after two months from the occurrence of such damage or destruction or order give to the other of them notice in writing to determine this present tenancy and thereupon the same and everything herein contained shall cease and be void as from the date of the occurrence of such damage or destruction or other but without prejudice to the rights and remedies of either party against the other in respect of any antecedent claim or breach of covenant or of the Landlord in respect of the rent herein reserved until the coming into effect of the suspension. For the avoidance of doubt, it is

hereby agreed that under no circumstances whatsoever and howsoever arising the Landlord shall be responsible to reinstate the Premises or to render the same fit again for habitation and use.

- (8) Any notice required to be served hereunder shall be sufficiently served on the Tenant if delivered to it by post or left addressed to it at its last known address in Hong Kong or at the Premises or any part thereof. Any notice required to be

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served hereunder shall be sufficiently served on the Landlord if delivered to it by post or left addressed to it at its place of business in Hong Kong. A notice sent by post shall be deemed to have been received by the Tenant or the Landlord as the case may be at the time when in due course of post it would be delivered at the address to which it is sent.

- (9) For the purpose of Part III of the Landlord and Tenant (Consolidation) Ordinance (Cap. 7) and any amendment(s) thereto and for the purpose of those present the rent in respect of the Premises shall be deemed to be in arrear if not paid in advance at the time and in manner hereinbefore provided for payment thereof. All costs and expenses of and incidental to the distraint shall be paid by the Tenant on a full indemnity basis and recoverable from it as a debt.
- (10) (a) The Tenant shall on the signing of this Lease pay to and shall maintain with the Landlord the deposit(s) as set out in Part III of the Second Schedule hereto being three months rent, three months management fees and three months central air-conditioning charges. The deposit(s) are paid to the Landlord to secure the due observance and performance by the Tenant of agreement obligations stipulations covenants terms and conditions herein contained and on the Tenant's part to be observed and performed. In the event the Tenant shall commit or suffer to be committed a breach of any of the terms and conditions herein or if the Tenant or another person in whom for the time being the term hereby created shall be vested shall become bankrupt or enter into any arrangements with creditors or suffer any prosecution in respect of the non-payment of any money due to the Government of Hong Kong Special Administrative Region then and in any of the said cases it shall be lawful for the Landlord at any time thereafter to re-enter upon the Premises or any part thereof in the name of the whole and thereupon this Lease shall absolutely determine in which event the deposit(s) shall be absolutely forfeited to the Landlord but without prejudice to any other right or remedy hereunder of the Landlord in respect of any breach of the terms and conditions herein contained and on the part of the Tenant to be observed and performed. Notwithstanding the foregoing the Landlord may in any event at its option elect not to terminate this Lease but to deduct from the deposit(s) the amount of any rent rates and other charges

payable hereunder and any costs expenses loss or damage sustained by the Landlord as the result of any non-observance or non-performance by the Tenant of any of the said agreements stipulations obligations or conditions. In the event of any deduction being made by the Landlord from the deposit(s) in accordance herewith or in the event of any increase in rent management fees and/or central air-conditioning charges and/or other outgoing in respect of the Premises during the currency of this Lease, the Tenant shall on demand by the Landlord give a further deposit or deposits equal to the amount so deducted or the amount required to maintain the deposit(s) at the total amount of three months' rent and three months' management fee and three months' central air-conditioning charge and failure by the Tenant so to do shall entitle the Landlord forthwith to re-enter upon the Premises and to determine this Lease as hereinbefore provided.

(b) If at the expiry or sooner determination of the Term the Tenant shall have paid all the rents, and other charges due hereunder and if there shall be no breach of any of the agreements terms and conditions on the Tenant's part to be observed and performed the Landlord will repay to the Tenant the deposit(s) without any interest thereon within thirty days after the Tenant shall have given to the Landlord vacant possession of the Premises. If there shall be any rent or other charges and if there shall be any breach of any of the said agreements terms and conditions herein on the part of the Tenant and Landlord shall pay out of or apply the deposit(s) or such part thereof as shall be required towards remedying such breach in so far as this may be possible.

(11) A written notice served by the Landlord on the Tenant in manner hereinafter mentioned to the effect that the Landlord thereby exercises the power of re-entry and/or determination herein contained shall be a full sufficient exercise of such power without actual entry on the part of the Landlord.

(12) The Landlord shall at any time and from time to time during the term be entitled to name the Building with any such name or style or names or styles as it in its sole discretion may determine and at any time and from time to time to change, alter, substitute or abandon any such names Provided that the Landlord shall give

not less than three (3) months' notice in writing to the Tenant and the postal and all other relevant authorities to that effect and in respect thereof the Landlord shall not be liable in damages to the Tenant or be made a party to any other proceedings or for costs or expenses of whatsoever nature incurred by the Tenant as a result of such change.

- (13) (a) The Landlord reserves the right from time to time to improve extend add to or reduce the Building or in any manner whatsoever alter or deal with the Building (other than the demised premises) including but not limited to increasing or reducing the number of shop and units in each floor of the Building to such number as the Landlord may in its absolute discretion think fit and the layout of the shop units and any other units in each floor of the Building and any other right of way, corridors and common areas in the Building and the Landlord shall not be liable for and the Tenant shall have no claim whatsoever against the Landlord in any event for any loss, damages or compensation whatsoever resulting directly or indirectly from the Landlord exercising such right PROVIDED that the Landlord shall use its best endeavour to have such works carried out and completed expeditiously causing the minimal disturbance to the Tenant's use of the Premises as reasonably possible.
- (b) The Tenant agrees that the Landlord reserves the right for its servants agents contractors and their respective employees to enter upon the Premises and any part of the Premises with all necessary equipment plant and materials for the purpose of carrying out renovation works to the whole Building or a substantial part thereof (if it is deemed necessary by the Landlord) and under no circumstances whatsoever shall the Tenant be entitled to claim any damages or compensation from the Landlord for any inconvenience noise or disturbance cause by such renovation works.
- (c) If the Landlord resolves to sell, demolish, re-build or refurbish the Building or a substantial part thereof (which intention shall be sufficiently evidenced by a copy of the Resolution of its Board of Directors certified by its Secretary to be a true and correct copy) then in such event the Landlord shall be entitled to give not less than 6 clear calendar months' notice in writing to expire at any time to terminate this Agreement, and

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immediately upon the expiration of such notice this Agreement shall terminate but without prejudice to the rights and remedies of either party against the other in respect of antecedent claim or breach of any of the covenants restrictions stipulations or conditions herein contained. Redevelopment and/or refurbishing for the purposes of this Clause shall mean the demolition of the whole Building or a substantial part or parts (but not necessarily a major part) thereof whether or not including any main walls exterior walls or roof of the Building and whether or not any part thereof is to be re-built or reconstructed in the same or any other manner.

- (14) Notwithstanding anything herein contained or implied to the contrary the Landlord may permit any person or organization to hold any functions or exhibition or display and merchandise in

any part or parts of the common areas at such times and upon such terms and conditions as the Landlord may in its absolute discretion think fit PROVIDED that the Landlord shall ensure that none of such activities shall cause any inconvenience to the Tenant's use of the Premises.

- (15) Notwithstanding anything herein contained or implied to the contrary the Landlord may provide and install a public address system throughout the common areas and play relay or broadcast or permit any other person to play relay or broadcast recorded music or public announcement therein PROVIDED that the same shall not unreasonably cause any nuisance or annoyance to the Tenant.
- (16) The Landlord shall not in any circumstances be liable to the Tenant or any other person whomsoever for the security or safekeeping of the Premises or any content therein and in particular but without prejudice to the generality of the foregoing the provision by the Landlord of watchmen and caretakers or any mechanical or electrical systems of alarm of whatever nature shall not create any obligation on the part of the Landlord as to the security of the Premises or any contents therein and the responsibility for the safety of the Premises and the contents thereof shall at all times rest with the Tenant nor shall the rent and other charges hereinbefore mentioned or any part thereof abate or cease to be payable on account of any of the foregoing (save and except the same is caused by or attributable to the act, neglect or default of the Landlord, its servants, agents or contractors) but subject

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to Clause 4(7) hereof.

5. Each party shall bear its legal costs of and incidental to the preparations of this Lease and the stamp duty and the registration fee (if appropriate) on this Agreement shall be borne and paid by the parties hereto in equal shares.
6. It is hereby declared that in the construction of these presents unless the contrary intention appears, words importing the masculine gender shall include feminine and neuter genders and words in the singular shall include the plural.
7. Subject to the provisions contained in the Third Schedule hereto, the Tenant shall have an option to renew this tenancy for the further term (if any) Provided in the Third Schedule hereto upon the expiration of the term hereby granted.
8. For the purpose of these presents any act default or omission of the agents, servants, contractors, workmen, visitors, members and guests of the Tenant shall be deemed to be the act default or omission of the Tenant.
9. The Tenant acknowledges that no fine premium key money or other consideration has been paid by the Tenant to the Landlord for the grant of this Lease.
10. This Lease sets out the full agreement between the parties hereto. No other warranties or representations have been made or given relating to the Landlord, the Tenant, the Building or the Premises, or if any warranty or representation has been made the same is hereby waived.
11. No condoning, excusing or overlooking by the Landlord of any default, breach

or non-observance or non-performance by the Tenant at any time or times of any of the Tenant's obligations herein contained shall operate as a waiver of the Landlord's rights hereunder in respect of any continuing or subsequent default, breach or non-observance or non-performance, or so as to defeat or affect in any way the rights and remedies of the Landlord hereunder in respect of any such continuing, or subsequent default or breach, and no waiver by the Landlord shall be inferred from, or implied by, anything done or omitted by the Landlord unless expressed in writing, and signed by the Landlord. Any consent given the Landlord shall operate as a consent only for the particular matter to which it relates and in no way shall be considered as a waiver or release of any of the provisions hereof nor shall it be construed as dispensing with the

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necessity of obtaining the specific written consent of the Landlord in the future, unless expressly so provided.

12. This Agreement is subject to all requisite consents being obtained by the Tenant from the Landlord. Any reasonable fees or expenses by the Landlord in connection with the giving of consents hereunder shall be borne by the Tenant.

13. If the Premises or any part(s) thereof are subject to any mortgage or charge or other encumbrance, the Landlord shall obtain and forward to the Tenant a copy, certified as true by a solicitor in Hong Kong Special Administration Region, of the written consent of the existing Mortgagee or Chargee (as the case may be) as the creation of this tenancy within 14 days from the date of signing hereof. If the Mortgagee or the Chargee (as the case may be) shall refuse to given the said consent, the Tenant shall have the right to terminate this Agreement at any time thereafter by serving written notice to that effect on the Landlord, whereupon this Agreement shall be treated as of no further force and effect except that the Landlord shall forthwith return to the Tenant all monies paid by the Tenant hereunder but without any interest or compensation.

14. The parties hereto further agree that they shall respectively be bound by and entitled to the benefit of the Special Conditions (if any) set out in the Fourth Schedule hereto.

15. This Agreement shall be governed by and construed in all respects in accordance with the laws of the Hong Kong Special Administrative Region. Each party hereto irrevocably submits to the non-exclusive jurisdictions of the courts of the Hong Kong Special Administrative Region.

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THE FIRST SCHEDULE ABOVE REFERRED TO

PART I

LANDLORD

UPCENTRE INVESTMENTS LIMITED whose registered office is situate at 2nd Floor, No.15 Wang Chiu Road, Kowloon. (Company No.294148)

TENANT

VIALTA.COM HONG KONG COMPANY LIMITED whose registered office is situate at Unit 1801, Westley Square, 48

PART II

PREMISES

All Those UNITS 1008-11 on the TENTH FLOOR, 238 NATHAN ROAD, Kowloon, Hong Kong ("the Building") erected on the Section A and the Remaining Portion of Kowloon Inland Lot No.1293, the Section A and the Remaining Portion of Kowloon Inland Lot No.1299 and Kowloon Inland Lot No.1298 ("the Land") which the Premises is for the purpose of identification only delineated and coloured Pink on the Plan annexed hereto.

PART III

TERM

For the term of two years from 3rd July 2000 ("the Commencement Date") to the 2nd July 2002 both days inclusive.

PART IV

USER

Restricted to the use as an office premises only and for no other purpose.

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THE SECOND SCHEDULE ABOVE REFERRED TO

PART I

Particulars of Rent

RENT (exclusive of government rent, rates management and air-conditioning fees and all other outgoings) for the Term shall be as follows:

- (a) DOLLARS FIFTY-ONE THOUSAND SEVEN HUNDRED TWENTY-SEVEN AND CENTS FIFTY ONLY (\$51,727.50) Hong Kong Currency per calendar month payable in advance.
- (b) Rent-Free Period: the first three months and 15 days from the Commencement Date shall be rent-free. During the Rent-Free Period the Tenant shall pay and discharge punctually the rates, Government rent, the management and air-conditioning fees and all other outgoings of an annual or recurring nature or at any time hereafter chargeable in respect of the Premises. The Tenant hereby acknowledges that any delay however occasioned either on the Tenant's part in submitting or resubmitting the proposed plans and specifications referred to in the Clause 2(5)(a) hereto or on the part of the Landlord in approving the same will not entitle him to any extension of the Rent-Free period hereunder.

PART II

Particulars of Management and Air-Conditioning Fees

HONG KONG DOLLARS TWELVE THOUSAND TWO HUNDRED TWENTY-SIX AND CENTS FIFTY ONLY (HK\$12,226.50) per calendar month payable in accordance with the provisions of Clause 2(2) hereof.

1. At the date hereof, the total charge for and management and air-conditioning fees in respect of the Premises is HK\$12,226.50 per calendar month but should such charges be increased or other charges legitimately be imposed in respect of the Premises then such increase or other charges so imposed shall be payable by the Tenant. The Tenant shall on signing this Agreement pay to the Landlord 3 months' management and air-conditioning fees deposit and thereafter during the term of this tenancy maintain the said deposit at a sum equal to 3 months'

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management and air-conditioning fees payable hereunder.

2. (a) The Landlord shall provide and maintain air-conditioning at all times during the normal business hours of the Premises but the Landlord shall not be liable to the Tenant nor shall the Tenant have any claim against the Landlord in respect of any interruption in any of the services hereinbefore mentioned by reason of the necessary repair or maintenance of any installation or apparatus of any damage thereto or destruction thereof by fire water act of God or other cause beyond the Landlord's control or by reason of electrical mechanical or other defect or breakdown or faults or other inclement conditions or unavoidable shortage of fuel material water or labour (save and except the same are caused by or attributable to the act, neglect, or default of the Landlord, its servants, agents or contractors) and subject to clause 4(7) or any act omission or negligence of any contractor attendants watchmen or servants of the Manager in or about the performance or purported performance of any duty relating to the provision of such services by any of them.

(b) If the Tenant shall require additional air-conditioning services outside the normal business hours of the Premises, the Tenant shall obtain prior approval from the Landlord and give to the Landlord not less than 2 days' notice in writing stipulating at what times the Tenant shall require additional air-conditioning supply. All costs and expenses so incurred shall be on Tenant's account payable at a rate to be determined by the Landlord's reasonable variation from time to time at the Landlord's reasonable discretion Provided Always that a minimum charge at the said rate calculated for 2 hours per day shall be paid by the Tenant on each time the Premises shall receive such additional air-conditioning supply. The terms of the deviation and additional air-conditioning supply shall be at the Landlord's reasonable discretion and the Tenant shall be required to sign the necessary undertaking before the provision of such addition air-conditioning.

(c) The Landlord reserves the right to change the days and hours during which the air-conditioning system is operated in the Building. Unless and until otherwise changed the daily operating hours are from 8:30 a.m. to 6:30 p.m. for Mondays to Fridays (both days inclusive) and from 8:30 a.m. to 2:00 p.m. for Saturday ("the normal business hours") and no air-conditioning on

PART III

Particulars of the Deposit

The Deposit (exclusive of rates and all other outgoings) comprises:

- (I) The sum of HK\$155,182.50 by way of rental deposit (being three months' rental); and
- (ii) The sum of HK\$36,679.50 by way of management and air-conditioning deposit (being three months' management and air-conditioning fees).

THE THIRD SCHEDULE ABOVE REFERRED TO

N/A

THE FOURTH SCHEDULE ABOVE REFERRED TO

Special Conditions

1. The Landlord shall handover the Premises to the Tenant in "as is" condition and the Landlord shall provide standard amount of material for carpet and raise floor system to the Tenant at the sole determination of the Landlord.
2. The Tenant covenants with the Landlord that the Tenant will not use or permit or suffer the Premises or part thereof to be used for the purpose for the exhibition of China properties nor operating sole or major business of Karaoke box during the Term or any renewed term of this Tenancy Agreement.
3. The Tenant shall procure ESS TECHNOLOGY, INC., as principal obligor and not merely as surety to give an unconditional guarantee upon signing of this Agreement for full, prompt and complete performance and discharge by the Tenant of all of its obligations and liabilities under or arising out of or in connection with this Agreement. The guarantee is a continuing guarantee and shall remain in full force and effect until the obligations and liabilities of the Tenant under or arising out of or in connection with this Agreement have been fully performed or discharged.

AS WITNESS the hands of the parties hereto or those of their duly authorised, representatives the day and year first above written.

SIGNED by Mr. Tony H. C. Lau,)
 one of its directors) For and on behalf of
 for and on behalf of the Landlord) UPCENTRE INVESTMENTS LIMITED
)
 whose signature(s) is verified by:) [SIGNATURE ILLEGIBLE]

 Authorized Signature

TSE YUEN MING
Solicitor to George Tung, Jimmy Ng &
Valent Tse, Solicitors, Hong Kong SAR

SIGNED by the Tenant's authorised) For and on behalf of
person, Mr. Chan Chi Yin) ViAlta.com, Hong Kong Company Limited
for and on behalf of the Tenant)
) [SIGNATURE ILLEGIBLE]
whose signature(s) is verified by:) -----
Authorized Signature

CHAN YIN CHUN
Solicitor, Hong Kong,
WAT & CO. SOLICITORS

<TABLE>
<S>

RECEIVED on or before the day and year first above written
of and from the Tenant the sum of
HONG KONG DOLLARS ONE HUNDRED NINETY-
ONE THOUSAND EIGHT HUNDRED AND SIXTY-

<C>

) For and on behalf of
) UPCENTRE INVESTMENTS LIMITED
)
) [SIGNATURE ILLEGIBLE]
) -----
Authorized Signature

TWO ONLY being the above mentioned Deposits to be
paid by the Tenant to the Landlord

HK\$191,862.00

SIGNATURE VERIFIED BY:

TSE YUEN MING
Solicitor to George Tung, Jimmy Ng &
Valent Tse, Solicitors, Hong Kong SAR

</TABLE>

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Dated the 2nd day of August 2000.

UPCENTRE INVESTMENTS LIMITED

and

LEASE

of

All Those UNITS 1008-11 on the TENTH FLOOR, 238 NATHAN ROAD, Kowloon, Hong Kong erected on the Section A and the Remaining Portion of Kowloon Inland Lot No.1293, the Section A and the Remaining Portion of Kowloon Inland Lot No.1299 and Kowloon Inland Lot No.1298.

GEORGE TUNG, JIMMY NG & VALENT TSE,
SOLICITORS,
6TH FLOOR, FUNG HOUSE,
NOS.19-20 CONNAUGHT ROAD CENTRAL,
HONG KONG,
REF: VT/U-12405/00

April 5, 2001

Didier Pietri
2632 Claray Drive
Los Angeles, CA 90077

Dear Didier:

We are pleased to make the following offer to employment to you:

Position: President
Department: Office of the President
Manager: Fred Chan, Chairman & CEO

Compensation: \$12,500 SEMI-MONTHLY (ANNUALIZED AT \$300,000)

First-Year Bonus: \$100,000 fully guaranteed after first year of employment is completed.

Stock Options: 1,000,000 shares - the vesting schedule is 25% after the first year. After that time, the vesting is monthly at a rate of 1/48, subject to approval by the Board of Directors at the next meeting. All shareholders and option holders will be diluted as additional shares or options are issued.

Benefits: Medical, Dental and Vision coverage is effective on your start date. HMO coverage is paid in full for the employee. PPO coverage requires a deduction from your paycheck. Medical and dental coverage for eligible dependents is available at 25% of cost.

Housing: Housing will be provided for the first two years, after which time additional provision can be discussed.

At-Will Basis: Vialta is an at-will employer in accordance with the laws of the State of California. You are free to leave at any time, and similarly, the Company can terminate your employment, with or without cause, at any time.

One-Year Agreement: Employment is guaranteed for one year.

Travel: The Company will pay up to 10 trips per month for you to visit your family in Los Angeles.

Effective: This offer will remain effective until April 9, 2001.

Start Date: On or before April 30, 2001

New hire orientation is held every Monday at 9:00 AM (please bring all required employment eligibility documents)

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Didier, we look forward to a positive response to our offer and to a mutually beneficial, professional relationship. Please indicate your acceptance by your signature and start date below.

/s/ Fred Chan

/s/ Didier Pietri

04/07/01

Fred Chan
Chairman

Start Date

SUBJECT TO COMPLETION -- DATED JULY 16, 2001

INFORMATION STATEMENT

VIALTA, INC.

DISTRIBUTION OF APPROXIMATELY 51,460,881 SHARES

OF CLASS A COMMON STOCK

This information statement is being furnished to you in connection with the distribution by ESS Technology, Inc. to holders of its common stock of approximately 51,460,881 shares of Vialta, Inc. Class A common stock representing approximately 56% of the outstanding capital stock of Vialta. The shares of Vialta Class A common stock to be distributed represent all of the Vialta shares currently held by ESS.

In connection with the distribution, Vialta recapitalized its capital stock into two classes: Class A and Class B. Holders of Class A common stock are entitled to 3.8 votes per share on all matters to be voted on by the stockholders. Holders of Class B common stock are entitled to one vote per share on all matters to be voted on by the stockholders.

Each holder of ESS common stock will receive 1.208 shares of Vialta Class A common stock for every share of ESS common stock held on July 23, 2001, which will be the record date for the distribution. The distribution will be effective at 12:01 a.m. on or about August 10, 2001.

ESS IS NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND ESS A PROXY.

No shareholder approval of the distribution is required or sought. You will not be required to pay for the shares of Vialta Class A common stock to be received by you in the distribution, or to surrender or to exchange shares of ESS common stock in order to receive Vialta Class A common stock, or to take any other action in connection with the distribution.

There is no current trading market for Vialta Class A common stock, although a limited trading market, known as a "when issued" trading market, may develop on or shortly before the record date for the distribution. Vialta will not file an application for listing on either a stock exchange or The Nasdaq Stock Market. Instead, Vialta expects that trades of shares of its Class A common stock will be reported on the OTC Bulletin Board.

ESS IS SEEKING A RULING FROM THE INTERNAL REVENUE SERVICE THAT THE DISTRIBUTION WILL QUALIFY AS A TAX-FREE DISTRIBUTION, AND ESS WILL NOTIFY YOU IF A FAVORABLE RULING IS OBTAINED. ESS CANNOT, HOWEVER, ASSURE YOU THAT IT WILL BE ABLE TO OBTAIN A FAVORABLE RULING. IF ESS FAILS TO RECEIVE SUCH A RULING, OR THE DISTRIBUTION OTHERWISE FAILS TO QUALIFY AS A TAX-FREE DISTRIBUTION, THE DISTRIBUTION WILL BE TAXABLE TO YOU IF YOU ARE A UNITED STATES SHAREHOLDER. ACCORDINGLY, PLEASE CAREFULLY CONSIDER THE DESCRIPTION OF THE POTENTIAL INCOME TAX CONSEQUENCES OF THE DISTRIBUTION DESCRIBED UNDER THE CAPTION "U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE DISTRIBUTION" BEGINNING ON PAGE 7.

IN REVIEWING THIS INFORMATION STATEMENT, YOU SHOULD CAREFULLY CONSIDER THE MATTERS DESCRIBED UNDER THE CAPTION "RISK FACTORS" BEGINNING ON PAGE 11.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS

INFORMATION STATEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS INFORMATION STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES.

SHAREHOLDERS OF ESS WITH INQUIRIES RELATED TO THE DELIVERY OF THE DISTRIBUTION SHARES SHOULD CONTACT ESS' TRANSFER AGENT, MELLON INVESTOR SERVICES, OVERPECK CENTRE, 85 CHALLENGER ROAD, RIDGEFIELD PARK, NJ 07660, TELEPHONE (800) 522-6645 (DOMESTIC) OR +1 (201) 329-8354 (INTERNATIONAL), TDD (800) 232-5469 (DOMESTIC) OR +1 (201) 329-8354 (INTERNATIONAL), OR SEND AN EMAIL TO MELLON INVESTOR SERVICES AT SHRRELATIONS@MELLON-INVESTOR.COM.

NEEDHAM & COMPANY
FINANCIAL ADVISER

The date of this information statement is July 24, 2001.

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INFORMATION STATEMENT

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QUESTIONS AND ANSWERS ABOUT THE DISTRIBUTION

Q: WHAT IS THE PLANNED TRANSACTION?

A: ESS Technology, Inc. plans to effect a spin-off of its majority-owned subsidiary, Vialta, Inc., by distributing to ESS shareholders all of the approximately 51,460,881 shares of Vialta Class A common stock currently held by ESS. Immediately following the planned distribution, the holders of the distributed shares will own approximately 56% of the outstanding shares of Vialta capital stock, while the remaining outstanding shares of Vialta capital stock will be held by existing Vialta stockholders.

Q: WHY IS ESS DISTRIBUTING ITS SHARES IN VIALTA?

A: ESS believes that its shareholders will benefit from the distribution of Vialta shares for the following reasons:

- ESS will avoid being in direct competition with certain of its customers by way of Vialta's expected product line;
- Vialta's ability to raise capital funding in the future is expected to be facilitated by its existence as a stand-alone company;

- financial markets will be able to better analyze and value both ESS and Vialta as separate stand-alone entities; and

- both ESS and Vialta will be better able to recruit and retain employees through incentive compensation plans tied directly to the performance of each of their respective businesses.

To review the reasons for the distribution in greater detail, see pages 5 and 6. We note that achieving these anticipated benefits is subject to certain risks discussed on pages 11 to 26.

Q: WHAT DO I NEED TO DO NOW?

A: You need not take any action in order to receive shares of Vialta Class A common stock in the distribution. You are not required to surrender any shares of ESS common stock in connection with the distribution.

Q: WHAT ARE THE U.S. TAX CONSEQUENCES OF THE DISTRIBUTION?

A: The U.S. federal income tax treatment of your receipt of Vialta Class A common stock will depend on whether or not the distribution qualifies as a tax-free distribution under the Internal Revenue Code. On July 6, 2001, ESS applied for a ruling from the Internal Revenue Service to the effect that the distribution will qualify as a tax-free distribution. If ESS is able to obtain a favorable ruling from the IRS and the distribution qualifies as a tax-free distribution, then you should not recognize any income or gain as a result of the distribution. If a favorable IRS ruling is not obtained, ESS will treat the distribution as a taxable distribution and you may recognize income or gain for U.S. federal income tax purposes, as described under the heading "The Distribution -- U.S. Federal Income Tax Consequences of the Distribution" beginning on page 7. As a result of this uncertainty, you should discuss the potential tax consequences of the distribution to you with your own financial or other tax advisor in order to determine, among other things, whether you will have sufficient cash to pay any tax liability in the event the distribution is taxable and whether you should consider selling all or a portion of the shares you receive in the distribution to cover the tax liability. In addition, because of the lack of liquidity generally applicable to stocks reported on the OTC Bulletin Board, you should be aware that it may take a substantial amount of time to sell your shares after you give your broker a sell order. Further, even if you are able to sell all or a portion of your shares, the proceeds from the sale may not be sufficient to cover your tax liability if the value of the shares has declined significantly since the date of distribution. ESS will notify you of the IRS' response to its ruling request. To review the tax consequences in greater detail, see pages 7 to 8.

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Q: WHAT WILL HAPPEN TO MY EXISTING ESS COMMON STOCK?

A: ESS common stock will continue to trade on The Nasdaq National Market under the symbol "ESST." The distribution will not affect the number of outstanding shares of ESS common stock or any rights of ESS shareholders.

Q: WHY IS ESS DISTRIBUTING THE SHARES PRIOR TO RECEIVING A TAX RULING FROM THE IRS?

A: ESS believes the benefits to its shareholders associated with the spin-off outweigh the potential tax liability to ESS and its shareholders. Therefore, ESS has decided to distribute the shares of Class A common stock whether or not the distribution will be tax-free. Because of the risk that the distribution will be taxable and that it will likely take up to six months to receive a ruling from the IRS, ESS has determined that the distribution should be made prior to receipt of a revenue ruling from the IRS in the event that the market value of Vialta's shares increases while the ruling request is pending.

Q: HOW MANY SHARES OF VIALTA CLASS A COMMON STOCK WILL I RECEIVE?

A: You will receive 1.208 shares of Vialta Class A common stock for each share of ESS common stock you held on July 23, 2001, the record date of the distribution. ESS will not issue fractional shares; instead fractional shares will be rounded up to the nearest whole share.

Q: WHAT IS THE DIFFERENCE BETWEEN VIALTA'S CLASS A COMMON STOCK AND CLASS B COMMON STOCK?

A: Vialta has two classes of authorized common stock: Class A common stock and Class B common stock. The two classes have different voting rights. Holders of Class A common stock will be entitled to 3.8 votes per share on all matters to be voted upon by the stockholders. Holders of Class B common stock will be entitled to one vote per share on all matters to be voted upon by the stockholders. You will receive shares of Class A common stock in the distribution. All Vialta stockholders prior to the distribution, other than ESS, will continue to hold Class B common stock after the distribution. Vialta has divided its common stock into two classes with disparate voting rights in order to facilitate ESS' compliance with the requirements for a tax-free distribution.

Q: WILL VIALTA'S COMMON STOCK REMAIN DIVIDED INTO TWO CLASSES IF ESS DOES NOT RECEIVE A FAVORABLE TAX RULING?

A: No. Each share of Class A common stock and each share of Class B common stock will be automatically converted into one share of non-classified Vialta common stock upon the earliest to occur of the following:

- a ruling by the IRS that the distribution is a taxable event;
- the abandonment by ESS of its request for a ruling from the IRS that the distribution is a non-taxable event; or
- if ESS has not received a ruling from the IRS that the distribution is a non-taxable event, then June 30, 2002.

After such conversion, the holder of each share of Vialta common stock will be entitled to one vote per share.

Q: WHERE CAN I TRADE THE VIALTA CLASS A COMMON STOCK I RECEIVE?

A: Vialta does not intend to file an application for listing on either a stock exchange or The Nasdaq Stock Market for its Class A common stock. Instead, Vialta expects that trades of shares of its Class A common stock will be reported on the OTC Bulletin Board under the symbol " ."

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Q: WHAT IS THE OTC BULLETIN BOARD?

A: The OTC Bulletin Board is a quotation service that displays quotes, last-sale prices and volume information regarding over-the-counter (OTC) equity securities. An OTC equity security generally is any equity security that is not listed or traded on Nasdaq or a national securities exchange.

The OTC Bulletin Board is only a quotation medium, not an issuer listing service, and should not be confused with The Nasdaq Stock Market. Market makers for OTC Bulletin Board securities generally are required only to match up willing buyers and sellers. Generally, market makers are not required to purchase securities directly from willing sellers or sell securities directly to willing buyers. For this and other reasons, the trading markets for OTC equity securities are generally significantly less liquid than the trading markets for securities listed on Nasdaq or a national securities exchange and therefore there may be a substantial delay in execution of trades. In addition, an active trading market in the Class A common stock may not develop.

Q: WHAT RECENT STEPS HAVE ESS AND VIALTA TAKEN IN ANTICIPATION OF THE DISTRIBUTION?

A: In order to prepare for Vialta's existence as an entity separate from ESS after the distribution, the following transactions have occurred or will occur:

- Vialta, formerly a California corporation, reincorporated in Delaware on May 25, 2001;

- Vialta was recapitalized on July , 2001, pursuant to which:
 - Vialta separated its outstanding capital stock into two classes: Class A common stock with 3.8 votes per share and Class B common stock with one vote per share; and

 - ESS received one share of Class A common stock for each share of Vialta capital stock it held and all other Vialta stockholders received 1.1 shares of Class B common stock for each share of Vialta capital stock they held;

- Vialta established a nonstatutory stock option plan, under which it will grant to ESS optionees immediately prior to the distribution an aggregate of approximately 8,939,219 shares of Class A common stock on terms that mirrored the terms of those optionees' existing ESS options;

- Prior to the distribution, ESS will transfer to Vialta approximately 8,939,219 shares of Class A common stock to be issued upon exercise of options that will be granted by Vialta to ESS optionees or otherwise returned to treasury stock; and

- Vialta will enter into a series of separation agreements with ESS prior to the distribution, which will contain the terms of Vialta's separation from ESS and their ongoing business relationships. To review the terms of the separation agreements in greater detail, see pages 47 to 49.

Q: WHAT ABOUT FUTURE DIVIDENDS?

A: Vialta has never paid cash dividends and does not expect that it will pay any cash dividends in the foreseeable future.

Q: WHEN IS THE DISTRIBUTION EXPECTED TO BE COMPLETED?

A: ESS anticipates that it will distribute its shares of Vialta Class A common stock on or about August 10, 2001.

Q: WHO CAN I CALL WITH QUESTIONS?

A: If you have any questions about the distribution, please call Vialta's investor relations department at (510) 492-1980 or ESS' investor relations department at (510) 492-1080.

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SUMMARY

This summary highlights information contained in other parts of this information statement. You should read the entire information statement carefully, including "Risk Factors" and the financial statements and related

notes.

Distributing Company..... ESS Technology, Inc., a California corporation, designs, markets and supports semiconductor solutions for multimedia applications in the Internet, PC and consumer marketplaces.

Distributed Company..... Vialta, Inc., a Delaware corporation, has developed a multi-featured DVD player that offers Internet access and expects to offer additional products from its "Digital Home System" platform, as well as a complementary system for the delivery of home entertainment content. See "Business" beginning on page 34.

Distribution Ratio..... 1.208 shares of Vialta Class A common stock, par value \$0.001 per share, for every one share of ESS common stock.

Shares to be Distributed..... Approximately 51,460,881 shares of Vialta Class A common stock will be distributed by ESS to its shareholders, representing approximately 56% of Vialta's capital stock and all of the Class A common stock held by ESS at the time of the distribution. Holders of shares of Class A common stock are entitled to 3.8 votes per share on all matters to be voted on by the stockholders.

Other Vialta Shares..... Existing Vialta stockholders hold 40,525,375 shares of Vialta's Class B common stock. Holders of Class B common stock are entitled to one vote per share on all matters to be voted on by Vialta stockholders.

Record Date..... July 23, 2001 (close of business).

Distribution Date..... On or about August 10, 2001.

No Fractional Shares..... No fractional shares of Vialta Class A common stock will be distributed; instead fractional shares will be rounded up to the nearest whole share.

Certain Tax Consequences..... The U.S. federal income tax treatment of your receipt of Vialta common stock will depend on whether or not the distribution qualifies as a tax-free distribution under Section 355 of the Internal Revenue Code of 1986, as amended. On July 6, 2001, ESS applied for a ruling from the Internal Revenue Service to the effect that the distribution will qualify as a tax-free distribution. There is a substantial risk that a favorable ruling might not be obtained. If ESS is able to obtain a favorable ruling from the IRS and the distribution qualifies as a tax-free distribution, then you should not recognize any income or gain as a result of the distribution. If a favorable IRS ruling is not obtained, ESS will treat the distribution as a taxable distribution and you may recognize income or gain for U.S. federal income tax purposes, as described under the heading "The Distribution -- U.S. Federal Income Tax Consequences of the Distribution" beginning on page 7. ESS will notify you of the IRS' response to its ruling request.

Trading Market and Symbol..... Vialta does not intend to file an application for listing on either a stock exchange or The Nasdaq Stock Market. Instead, Vialta expects that trades of shares of its Class A common stock will be reported on the OTC Bulletin Board under the symbol "....." Vialta cannot predict the trading market for its stock; however, it is possible that trading will commence on a "when issued" basis prior to the distribution. "When issued" trading refers to a transaction made conditionally because the security has been authorized but not yet issued. On the first trading day following the distribution date, "when issued" trading in respect of Vialta's common stock will end and "regular way" trading will begin. "Regular way" trading refers to trading after a security has been issued.

Shares of Vialta's Class B common stock are subject to a lockup agreement prohibiting sales in the public market for 180 days after the distribution date. Vialta expects that at the end of this lockup period trades of its Class B common stock will be reported on the OTC Bulletin Board.

Distribution Agent..... Mellon Investor Services, Ridgefield Park, New Jersey.

Dividends..... The Vialta board of directors anticipates that Vialta will retain any earnings and will not pay dividends to its stockholders in the foreseeable future. See "Dividend Policy" on page 26.

Principal Office of Vialta.... 48461 Fremont Boulevard, Fremont, California 95438.

Transfer Agent and Registrar..... Mellon Investor Services will act as transfer agent and registrar for the Vialta Class A common stock and Class B common stock.

Reasons for the Distribution..... After thorough consideration, the board of directors of ESS determined that a distribution of Vialta shares was in the best interest of the shareholders of ESS. The ESS board of directors considered a number of factors in determining to approve the distribution of Vialta shares, including the public market's ability to analyze and value the ESS and Vialta businesses; the potential that Vialta's expected product line might put ESS in direct competition with certain of its customers; Vialta's ability to raise capital funding in the future; and ESS' and Vialta's ability to recruit and retain employees.

Relationship of Vialta and ESS..... Vialta was originally incorporated in California on April 20, 1999, as a wholly-owned subsidiary of ESS named Vialta.com. Its name was changed to Vialta, Inc. on February 13, 2001, and it was reincorporated in Delaware on May 25, 2001. ESS currently owns approximately 56% of Vialta's common stock. After the distribution, ESS will not own any shares of Vialta's capital stock. Prior to the completion

of the distribution, Vialta will enter into a series of separation agreements with ESS which contain the terms of Vialta's separation from ESS and their ongoing business relationships. See "Related Party Transactions -- Separation Agreements between ESS and Vialta" beginning on page 47.

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Investor Capital..... Holders of Vialta and ESS securities who have questions relating to the distribution should contact investor relations at Vialta's principal executive offices, 48461 Fremont Boulevard, Fremont, California 95438; telephone (510) 492-1980; or investor relations at ESS' principal executive offices, 48401 Fremont Boulevard, Fremont, California 95438; telephone (510) 492-1080.

Risk Factors..... You should carefully consider certain factors described under "Risk Factors" beginning on page 11.

Except as otherwise indicated herein, this information statement gives effect to the following:

- the recapitalization of Vialta, pursuant to which:
 - Vialta separated its outstanding capital stock into Class A common stock with 3.8 votes per share and Class B common stock with one vote per share, and
 - ESS received one share of Class A common stock for each share of Vialta capital stock it held and all other Vialta stockholders received 1.1 shares of Class B common stock for each share of Vialta capital stock they held; and
- the transfer of approximately 8,939,219 shares of Class A common stock by ESS to Vialta to be issued upon exercise of options that will be granted by Vialta to ESS optionees immediately prior to the distribution.

Vialta(TM), ViDVD(TM), ViMedia(TM), DHS(TM), ViMag(TM), ViMagazine(TM), ViAudio(TM) and ViZip(TM) are trademarks of Vialta, Inc. ViPhone(TM) is a trademark of ESS, which Vialta expects to receive in connection with the master technology ownership and license agreement between Vialta and ESS. See "Related Party Transactions -- Separation Agreements between ESS and Vialta" beginning on page 47. This information statement also includes trademarks of other companies.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables present Vialta's summary consolidated financial data. The data presented in these tables are derived from Vialta's historical consolidated financial statements and notes to those statements included elsewhere in this information statement. You should read those sections along with "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a further explanation of the financial data summarized here.

The historical financial information may not be indicative of Vialta's future performance and does not reflect what Vialta's financial position and results of operations would have been had Vialta operated as a separate, stand-alone entity during the periods presented.

The pro forma net loss per share figures give effect to the recapitalization of Vialta and the transfer of approximately 8,939,219 shares of Vialta common stock from ESS to Vialta.

<TABLE>

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	THREE MONTHS ENDED MARCH 31,		PERIOD FROM APRIL 20, 1999 (DATE OF INCEPTION) THROUGH MARCH 31,	YEAR ENDED DECEMBER 31,	PERIOD FROM APRIL 20, 1999 (DATE OF INCEPTION) THROUGH DECEMBER 31,
	2001	2000	2001	2000	1999
	(IN THOUSANDS EXCEPT PER SHARE DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
Operating loss.....	\$ (7,880)	\$ (7,431)	\$ (39,605)	\$ (29,184)	\$ (2,541)
Net loss.....	(6,669)	(5,416)	(30,807)	(22,918)	(1,220)
Net loss per share, basic and diluted.....	\$ (1.07)	\$ (0.87)		\$ (3.68)	\$ (0.71)
Weighted average shares.....	6,231	6,220		6,222	1,716
Pro-forma net loss per share, basic and diluted(1).....	\$ (0.07)	\$ (0.07)		\$ (0.29)	
Weighted average shares(1).....	91,975	89,092		91,247	

</TABLE>

(1) The pro forma net loss per share for the three months ended March 31, 2001 and 2000 and for the year ended December 31, 2000 assume that the exchange of the preferred stock for common stock occurred on January 1, 2000 or the date of original issuance, if later.

<TABLE>

<CAPTION>

	PRO FORMA			DECEMBER 31,	
	MARCH 31, 2001	MARCH 31, 2001	MARCH 31, 2000	2000	1999
	(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
Cash and cash equivalents, short-term investments.....		\$ 98,009	\$132,335	\$136,490	\$112,844
Working capital.....		100,852	129,260	109,870	111,920
Total assets.....		117,449	142,407	153,691	114,580
Notes to related party.....		--	--	30,000	--
Other current liabilities.....		4,021	5,753	3,594	940
Redeemable convertible preferred stock.....		142,600	142,600	142,600	114,780
Total stockholders' equity (deficit).....	\$113,428	(29,172)	(5,081)	(22,503)	(1,140)

</TABLE>

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THE DISTRIBUTION

The board of directors of ESS has declared a distribution to its shareholders of 1.208 shares of Vialta Class A common stock for every share of ESS common stock held on July 23, 2001, the record date for the distribution. As a result of the distribution, approximately 51,460,881 shares of Vialta Class A common stock will be distributed to ESS shareholders. The Vialta shares to be distributed by ESS represent all of the Vialta shares that will be held by ESS at the time of the distribution, and approximately 56% of the outstanding capital stock of Vialta.

Under the master distribution agreement to be entered into by Vialta and ESS, the distribution will be effective at 12:01 a.m. on the distribution date, August 10, 2001. At that time, ESS will effect the distribution by delivering approximately 51,460,881 shares of Vialta Class A common stock to the custodian for the benefit of the ESS shareholders of record as of the record date. As soon as practicable thereafter, the custodian will deliver the shares of Vialta Class

A common stock to Mellon Investor Services, ESS' transfer agent, which will then distribute the shares by mail or by electronic book entry to the ESS shareholders of record as of the record date.

No fractional shares of Vialta Class A common stock will be distributed; instead fractional shares will be rounded up to the nearest whole share.

Vialta has two classes of common stock: Class A and Class B. Holders of Class A common stock are entitled to 3.8 votes per share on all matters to be voted on by the stockholders. Holders of Class B common stock are entitled to one vote per share on all matters to be voted on by the stockholders.

ESS shareholders will not be required to pay any cash or other consideration for Vialta Class A common stock received in the distribution. However, the receipt by an ESS shareholder of shares of Vialta Class A common stock may be a taxable transaction for United States federal income tax purposes. As a result of this uncertainty, ESS shareholders should discuss the potential tax consequences of the distribution with their own financial or other tax advisor in order to determine, among other things, whether they will have sufficient cash to pay any tax liability in the event the distribution is taxable and whether they should consider selling all or a portion of the shares they receive in the distribution to cover the tax liability. See "U.S. Federal Income Tax Consequences of the Distribution" beginning on page 7.

The general terms and conditions of the distribution and the arrangements between Vialta and ESS are set forth in the separation agreements. For more information regarding the separation agreements, please see "Related Party Transactions -- Separation Agreements between ESS and Vialta" beginning on page 47. ESS will pay the costs and expenses incurred by ESS and Vialta in connection with the distribution, but each ESS shareholder will be responsible for any costs or expenses that such shareholder incurs in connection with the distribution.

BACKGROUND AND REASONS FOR THE DISTRIBUTION

ESS is actively engaged in the design, marketing and sale of semiconductor chips. ESS sells its chips to original equipment manufacturers, or OEMs, world wide. ESS has a chip product line that includes video and communications chips used in a variety of consumer electronics applications, including DVD players, CD players, MP3 players, video CD players, known as VCDs, and super VCD players, known as SVCDs. The VCD and SVCD formats are widely used in China and other emerging countries, but are not prevalent in the United States. ESS has been bundling a web browser, email application and set top box controls into many of its chips, permitting ESS customers to build DVDs that allow the user to access the Internet on a television, send and receive email and play DVDs from a single player controlled by an infrared, wireless keyboard. In early 1999, ESS began development of its own, proprietary set top box as part of a strategy to promote new applications for its multi-function chips. To fund development of this new product line, ESS established Vialta as a subsidiary, and Vialta sold shares of its capital stock to ESS and a limited number of private investors, including members of ESS' management team.

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In making its determination that a distribution of Vialta shares was in the best interest of ESS shareholders, the ESS board of directors considered several factors, including but not limited to the following:

- Valuing ESS as a stand-alone entity. ESS has determined that consolidating the financial statements of Vialta, which is a company that is still in the development stage, creates confusion among ESS' stock analysts and public shareholders as to the value of ESS as a stand-alone entity. ESS believes that the distribution will enable the public market to better analyze and value both ESS and Vialta as separate entities.
- Competition with customers. Vialta's initial product, the ViDVD, is an enhanced DVD player that draws on the technologies acquired from ESS and enables consumers to play multiple disc formats, including DVDs, CDs, MP3 discs and karaoke, and also allows consumers to browse the Internet through their televisions. ESS' OEM customers manufacture and sell private label DVD players using ESS chips to deliver functionality that is very similar to the ViDVD to be sold by Vialta. ESS believes that the spin-off of Vialta is necessary, in part, so that ESS can avoid competing directly with several of its largest customers.

- Facilitating future financings. Vialta anticipates that it will need to conduct additional financing transactions to continue new product development and to help fund the ongoing costs associated with the launch of its new product lines. ESS believes that Vialta will be able to raise funds on better economic terms as a stand-alone company than as a subsidiary of ESS.
- Key employee recruiting and retention. Both ESS and Vialta will need to continue to recruit and retain key employees to support their respective growth plans. Due to the differences of the industries in which ESS and Vialta compete, ESS believes that each will be better able to attract and retain qualified candidates because their respective businesses will be more focused and not part of a large diversified company. Both ESS and Vialta will be able to reward their respective employees through incentive compensation and option plans that are tied directly to the performance of each of their respective businesses.

VIALTA RESTRUCTURING AND BACKGROUND

Vialta was originally incorporated in California on April 20, 1999, as a wholly-owned subsidiary of ESS. Between the date of its inception and March 2000, Vialta sold shares of its capital stock to private investors, including ESS, its Chairman and three ESS employees, resulting in ESS owning approximately 62% and the other private investors owning approximately 38% of Vialta's then outstanding capital stock. Vialta was reincorporated in Delaware on May 25, 2001. On July 23, 2001, Vialta was recapitalized, pursuant to which:

- Vialta separated its outstanding capital stock into Class A common stock with 3.8 votes per share and Class B common stock with one vote per share, and
- ESS received one share of Class A common stock for each share of capital stock it held and all other Vialta stockholders received 1.1 shares of Class B common stock for each share of capital stock they held.

Prior to the distribution, ESS will transfer to Vialta approximately 8,939,219 shares of Class A common stock to be issued upon exercise of options that will be granted by Vialta to ESS optionees. In connection with that transfer, Vialta established a nonstatutory stock option plan, under which it will grant to ESS optionees immediately prior to the distribution options to purchase an aggregate of approximately 8,939,219 shares of Class A common stock on terms that mirror the terms of those optionees' existing ESS options.

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U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE DISTRIBUTION

The following discussion summarizes the material U.S. federal income tax consequences to you of the distribution. The following discussion does not deal with all U.S. federal income tax consequences that may result from the distribution, and does not deal with all U.S. federal income tax considerations that may be relevant to you due to particular circumstances, for example, if you are a dealer in securities, an insurance company, a financial institution, a tax-exempt organization or trust or a foreign taxpayer. This discussion assumes that you are holding your ESS shares as capital assets. No foreign, state or local tax considerations are addressed.

This discussion is based on current legal authorities. Vialta cannot assure you that future legislation, regulations, administrative pronouncements or court decisions will not significantly change the law and materially affect the discussion set forth below. Any such change, even though made after the distribution, could be applied retroactively.

On July 6, 2001 ESS applied for a ruling from the Internal Revenue Service to the effect that the distribution will qualify as a tax-free distribution for federal income tax purposes under Section 355 of the Internal Revenue Code of 1986, as amended. There is a substantial risk that a favorable ruling will not be obtained. Even if ESS receives a favorable ruling from the IRS relating to the qualification of the distribution as a tax-free transaction, the continuing

validity of the ruling would be subject to factual representations and assumptions which, if untrue, would result in the ruling not being binding on the IRS.

If a favorable IRS ruling is obtained and if the distribution qualifies as a tax-free distribution, the following U.S. federal income tax consequences would result:

- You would not recognize any income, gain or loss on your receipt of Vialta Class A common stock in the distribution.
- Your tax basis in your shares of ESS stock and the Vialta Class A common stock that you receive in the distribution immediately after the distribution will be the same as the tax basis of your ESS stock immediately before the distribution, allocated between the ESS stock and the Vialta Class A common stock in proportion to their relative fair market values on the date of the distribution.
- The holding period of the Vialta Class A common stock you receive will include the holding period of your ESS common stock.

If the IRS does not issue a favorable ruling, the distribution will be treated as a taxable distribution. If the distribution is a taxable distribution (based on failure to receive a favorable IRS ruling or otherwise), the following U.S. federal income tax consequences will result:

- The value of the Vialta Class A common stock you receive will be treated as follows:

(a) first, as a dividend (ordinary income), to the extent of your pro-rata share of the greater of ESS' accumulated earnings and profits (determined as of the date of distribution) or ESS' earnings and profits for ESS' current tax year (determined as of the end of ESS' current tax year and without regard to the distribution);

(b) next, as a non-taxable return of basis to the extent of your adjusted tax basis in your ESS stock; and

(c) the balance, if any, should be treated as capital gain.

- Your tax basis in the Vialta Class A common stock you receive would be equal to the fair market value of the Vialta Class A common stock you receive, and your holding period for the stock would begin on the day following the distribution.
- Your adjusted tax basis in your shares of ESS stock will be reduced by the amount treated as non-taxable return of basis under (b) above and your holding period will be unaffected.

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If the distribution does not qualify as a tax-free distribution, ESS would recognize a taxable gain equal to the excess of the fair market value of the Vialta Class A common stock distributed to ESS shareholders over ESS' tax basis in the Vialta Class A common stock.

Even if the distribution otherwise qualifies for tax-free treatment, the distribution may be disqualified as tax-free to ESS, resulting in the same taxable gain to ESS as described in the immediately preceding sentence, if 50% or more of the stock of ESS or Vialta is acquired as part of a plan or series of related transactions that include the distribution. For this purpose, certain acquisitions of ESS capital stock or Vialta capital stock within two years before or after the distribution are presumed to be part of such a plan, although ESS may be able to rebut that presumption.

If the distribution is a taxable distribution, ESS will be required to report to the IRS the value of the Vialta Class A common stock that you receive, based on ESS' determination of the fair market value of the Vialta stock as of the date of distribution. If you are a U.S. individual, because there is a risk that the distribution may be taxable, ESS intends to withhold tax, at a rate of 31%, from the amount of the stock which is treated as a dividend to you, if you fail to provide your taxpayer identification number to ESS, furnish an incorrect identification number or repeatedly fail to report interest or dividends on your returns. This information reporting and back-up withholding will not apply to you if you are a foreign or U.S. corporation. Any amounts withheld can be credited against your federal income tax liability.

If you are a foreign individual or foreign entity, you may be subject to

U.S. federal income tax withholding if and to the extent the value of the Vialta Class A common stock you receive is treated as a dividend. The rate of tax withholding for this purpose is generally 30%, although the 30% rate may be reduced if you are eligible for, and comply with certain procedures related to qualifying for, certain tax treaties which reduce or eliminate such withholding taxes.

If back-up withholding is required, or if withholding is required because you are a foreign individual or foreign entity, ESS will withhold part of the Vialta stock which you would otherwise receive in order to fund payment of the withholding taxes. For purposes of determining how much of the Vialta stock to withhold, ESS will use the same value per share of the Vialta stock used for purposes of determining the amount treated as a dividend.

As a result of this uncertainty, you should discuss the potential tax consequences of the distribution to you with your own financial or other tax advisor in order to determine, among other things, whether you will have sufficient cash to pay any tax liability in the event the distribution is taxable and whether you should consider selling all or a portion of the shares you receive in the distribution to cover the tax liability. In addition, because of the lack of liquidity generally applicable to stocks reported on the OTC Bulletin Board, you should be aware that it may take a substantial amount of time to sell your shares after you give your broker a sell order. Further, even if you are able to sell all or a portion of your shares, the proceeds from the sale may not be sufficient to cover your tax liability if the value of the shares has declined significantly since the date of the distribution.

THE PRECEDING DISCUSSION IS NOT A COMPLETE ANALYSIS OR DISCUSSION OF ALL POTENTIAL TAX EFFECTS RELEVANT TO THE DISTRIBUTION. YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES TO YOU, INCLUDING TAX RETURN REPORTING REQUIREMENTS, THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL AND OTHER TAX LAWS AND THE EFFECTS OF ANY CHANGES IN THE TAX LAWS.

TRADING OF VIALTA'S COMMON STOCK AFTER THE DISTRIBUTION

There currently is no established public trading market for any class of Vialta's capital stock. Vialta is not currently offering any shares of its capital stock publicly, nor has it publicly proposed to conduct such an offering. Vialta expects that, after ESS' distribution of its shares of Vialta Class A common stock, trades of shares of Class A common stock will be reported on the OTC Bulletin Board under the symbol " ". The holders of Class B common stock have agreed that, for a period of 180 days after the distribution date, they will not sell any of their shares of Class B common stock. Accordingly, Vialta does

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not anticipate that an established public trading market for shares of its Class B common stock will develop before the end of this lockup period.

Assuming there is no material change in the number of ESS shareholders of record prior to the distribution date, Vialta expects that immediately after the distribution it will have approximately 216 holders of record of its Class A common stock and 20 holders of record of its Class B common stock.

Shares Eligible for Future Sale. Sales of substantial amounts of Vialta's Class A common stock in the public market could adversely affect the prevailing market price and Vialta's ability to raise equity capital in the future.

Based on shares outstanding as of June 30, 2001, upon completion of the distribution, Vialta will have approximately 51,460,881 shares of Class A common stock outstanding. Vialta believes that all of these shares will be freely tradable without restriction under the Securities Act of 1933, except for those shares distributed to ESS shareholders that are affiliates of Vialta.

As of June 30, 2001, there were outstanding options to purchase 2,793,300

shares of Class A common stock. In addition, Vialta plans to grant options to purchase approximately 8,939,219 shares of Class A common stock pursuant to its 2001 nonstatutory stock option plan immediately prior to the distribution. Vialta intends to file a registration statement on Form S-8 under the Securities Act covering all of the shares of Class A common stock reserved for issuance upon exercise of outstanding options. The Form S-8 registration statement is expected to be filed and become effective on the date of this information statement. Accordingly, the shares of Class A common stock registered under the Form S-8 registration statement will be available for sale in the open market immediately after the distribution (upon vesting and exercise by option holders), except with respect to Rule 144 volume limitations that will apply to shares held by Vialta affiliates.

Based on shares outstanding as of June 30, 2001, upon completion of the distribution, Vialta will have 40,525,375 shares of Class B common stock outstanding, all of which are restricted securities held by existing Vialta stockholders. All of these shares of Class B common stock are subject to a lockup agreement prohibiting sales in the public market for 180 days after the distribution date. Pursuant to the provisions of Rules 144, 144(k) and 701 described below, all of these restricted shares will be available for sale in the public market immediately at the end of the lockup period.

Rule 144. In general, under Rule 144, a person who has beneficially owned shares of Vialta Class B common stock for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the number of shares of Vialta's Class B common stock then outstanding, which will equal approximately 405,254 shares immediately after the distribution or, to the extent the Class B common stock subsequently becomes listed on a national exchange or The Nasdaq National Market, the average weekly trading volume of Vialta's common stock on such exchange or quotation system during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale. Sales under Rule 144 are also limited by manner of sale provisions, notice requirements and the availability of current public information about Vialta.

Rule 144(k). Under Rule 144(k), a person who is not deemed to have been one of Vialta's affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell those shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144 discussed above.

Rule 701. In general, under Rule 701, any of Vialta's employees, officers, directors, consultants or advisors who purchased shares from Vialta before the distribution under an option plan or other written agreement will be eligible to resell their shares beginning 90 days after the date of this information statement. Non-affiliates will be able to sell their shares subject only to the manner of sale provisions of Rule 144. Affiliates will be able to sell their shares without compliance with the holding period requirements of Rule 144.

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NO APPRAISAL RIGHTS

ESS is a California corporation. The California General Corporation Law does not provide for dissenters' rights of appraisal with respect to dividend distributions. Accordingly, you will not have appraisal rights with respect to ESS' distribution of shares of Vialta Class A common stock.

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RISK FACTORS

You should carefully consider the risks described below when evaluating ownership of Vialta Class A common stock. If any of the following risks occur, Vialta's business, operating results and financial condition could be seriously harmed. The risks and uncertainties described below are not the only risks and

uncertainties that Vialta faces. Additional risks and uncertainties that Vialta is presently not aware of could also impair its business, operating results and financial condition.

RISKS RELATED TO THE DISTRIBUTION AND VIALTA'S SEPARATION FROM ESS

IF THE INTERNAL REVENUE SERVICE DETERMINES THAT THE DISTRIBUTION OF VIALTA STOCK DOES NOT QUALIFY AS A TAX-FREE DISTRIBUTION, THEN ESS WILL TREAT THE DISTRIBUTION AS A TAXABLE DISTRIBUTION AND YOU MAY BE REQUIRED TO PAY INCOME TAXES AS A RESULT OF RECEIVING THE VIALTA STOCK.

Unless the Internal Revenue Service determines that the distribution qualifies as a tax-free distribution for U.S. federal income tax purposes, you may be required to pay income taxes as a result of the distribution, with the amount of ordinary income and gain dependent upon the value of the stock you receive, your share of ESS' earnings and profits, and your adjusted tax basis in your ESS stock. Determining whether or not the distribution will qualify for tax-free status requires a complex analysis of many factors, including, among others, the business purpose for the distribution, the nature of the business to be engaged in by ESS and Vialta following the distribution, and the extent to which ESS remains in control of Vialta following the distribution. Because of the fact-intensive nature of this analysis, there will be substantial uncertainty as to whether the distribution will qualify for tax-free treatment until the IRS makes a determination as to the tax status of the transaction.

Although ESS has applied for a ruling from the IRS, it is not anticipated that the IRS will make its determination until several months after the distribution has been completed. In addition, ESS has not obtained an opinion of its tax advisors regarding the tax treatment of the transaction. ACCORDINGLY, ESS CANNOT PROVIDE ANY ASSURANCES TO YOU THAT A FAVORABLE RULING FROM THE IRS WILL BE OBTAINED. MOREOVER, EVEN IF A FAVORABLE IRS DETERMINATION IS OBTAINED, YOU STILL MAY BE TAXED BY THE STATE, LOCAL OR FOREIGN JURISDICTION IN WHICH YOU RESIDE. Accordingly, you are strongly urged to consult with your own financial advisors regarding the potential tax impact to you of the distribution and to prepare for the significant possibility that the transaction will be taxable to you.

If the distribution is taxable to you, the value of the Vialta shares you receive will be treated as taxable ordinary income, return of cost or as taxable capital gain up to the value of the stock distributed. Absent a favorable ruling from the IRS, you will incur this tax whether or not you decide to sell the Vialta shares that you receive in the distribution. Unless you are required to make quarterly estimated tax payments to the IRS, this tax would generally have to be paid on or before the April 15, 2002 due date for your 2001 tax return. If you do not have cash available to pay the tax at or before the time it is due, you may have to sell all or a portion of your ESS shares and/or your Vialta shares to pay the tax or risk incurring interest and penalties imposed by the IRS. If other ESS or Vialta stockholders holding a significant number of those companies' shares are also forced to sell in order to pay their taxes, or if there is for any other reason a decline in the trading prices of those companies' shares following the distribution, you may have to sell your ESS shares and/or your Vialta shares at a lower price than you might otherwise have obtained for your shares. Moreover, given the volatility of the stock markets in recent months, if you continue to hold all of your ESS shares and Vialta shares until after the IRS ruling is obtained and the market price of those shares declines, the proceeds from the subsequent sale of all of those shares may not be sufficient to cover the tax due if the transaction is determined to be taxable to you.

FOLLOWING THE DISTRIBUTION, VIALTA WILL NO LONGER BE ABLE TO RELY ON ESS AS A MAJOR SOURCE OF CAPITAL FUNDING, WHICH COULD LIMIT VIALTA'S ABILITY TO GROW OR SUSTAIN ITS BUSINESS.

Vialta has traditionally relied on ESS as a major source of capital funding. Following the completion of the distribution, ESS will cease being a majority stockholder of Vialta and may choose to no longer

provide funding to Vialta. Even if ESS were to choose to provide additional funding to Vialta in the future, ESS may not have funds available to provide such funding or may not choose to provide such funding on terms favorable to Vialta and its stockholders. As Vialta's business continues to grow, Vialta will

need to raise additional capital, which may not be available on acceptable terms, or at all. If Vialta cannot raise necessary additional capital on acceptable terms, it may not be able to grow or sustain its business.

VIALTA MAY HAVE POTENTIAL BUSINESS CONFLICTS OF INTEREST WITH ESS WITH RESPECT TO THE COMPANIES' ONGOING RELATIONSHIPS, AND VIALTA MAY NOT BE ABLE TO RESOLVE THESE CONFLICTS ON TERMS FAVORABLE TO IT.

Conflicts of interest may arise between ESS and Vialta in a number of areas relating to ongoing relationships between the companies, including:

- Although ESS and Vialta will be entering into agreements with one another that will govern their business relationship after the completion of the distribution, ESS will have no obligation to extend the terms of those agreements to Vialta beyond the stated duration of those agreements;
- ESS will be supplying semiconductors to Vialta's competitors, which may affect ESS' capacity to supply semiconductors to Vialta;
- ESS and Vialta will be competing with one another in employee recruiting; and
- ESS and Vialta may compete with one another with respect to business opportunities that are attractive to both companies. ESS also is not restricted from competing with Vialta's business.

VIALTA'S AGREEMENT TO INDEMNIFY ESS FOR TAX LIABILITIES UNDER CERTAIN CIRCUMSTANCES MAY AFFECT VIALTA'S CASH FLOW AND MAY DISCOURAGE POTENTIAL ACQUISITION PROPOSALS OR DELAY OR PREVENT A CHANGE IN CONTROL OF VIALTA, AND MAY LIMIT THE SIZE OF ANY FUTURE OFFERINGS OF VIALTA'S STOCK.

Even if the distribution is otherwise a tax-free distribution, ESS may, under certain circumstances, recognize gain for U.S. federal and state income tax purposes with respect to the distribution of Vialta stock if a 50% or greater interest in Vialta is acquired during the two year period following the distribution. Certain sales of shares by Vialta that occurred during the two year period immediately prior to the distribution may be counted towards the 50% threshold. The amount of such gain would be the difference between the fair market value of the Vialta stock distributed, as of the date of distribution, and ESS' adjusted tax basis in the Vialta stock. Under a tax sharing and indemnity agreement, Vialta has agreed under certain circumstances to indemnify ESS for ESS' U.S. federal and state income tax liability which results as a direct consequence of any acquisition of a 50% or greater interest in Vialta after the distribution. This indemnity obligation, if triggered, could have a substantial effect on Vialta's available cash. In addition, the existence of the indemnity obligation may discourage potential acquisition proposals and could delay or prevent an acquisition of a 50% or greater interest in Vialta. Because future sales of stock could be deemed to be part of a related transaction that results in an acquisition of a 50% or greater interest in Vialta, Vialta's desire to avoid triggering the indemnity obligation could limit the size of any offerings of stock by Vialta during the two year period following the distribution.

THE HISTORICAL FINANCIAL INFORMATION OF VIALTA MAY NOT BE REPRESENTATIVE OF ITS FUTURE OPERATING RESULTS AS A SEPARATE COMPANY.

The historical financial information of Vialta does not necessarily reflect what its financial position, operating results and cash flows would have been had it been a stand-alone entity during the periods presented. In addition, the historical information is not necessarily indicative of what its operating results, financial position and cash flows will be in the future. Vialta may have to make significant changes to its cost structure, funding and operations as a result of it no longer being a majority owned subsidiary of ESS, including changes to its employee base, costs associated with establishing and maintaining a separate administrative infrastructure, costs associated with reduced economies of scale, and costs associated with being a stand-alone company.

IF VIALTA IS UNABLE TO ATTRACT AND RETAIN THE QUALIFIED PERSONNEL REQUIRED TO TIMELY AND COST-EFFECTIVELY IMPLEMENT NEW ADMINISTRATIVE SYSTEMS TO REPLACE THE

PORTIONS OF ESS' ADMINISTRATIVE INFRASTRUCTURE ON WHICH IT CURRENTLY RELIES, VIALTA'S BUSINESS COULD BE HARMED.

Vialta currently uses duplicated versions of ESS' systems to support its operations, including systems to manage human resources, accounting, payroll and internal computing operations. Following the distribution, ESS will have no obligation to provide assistance to Vialta other than the interim services which will be provided by ESS and which are described in "Related Party Transactions -- Agreements between ESS and Vialta." These interim services include, among others, information technology systems, human resources, administration, product order administration, customer service, buildings and facilities and legal, finance and accounting services.

Over the next several months, Vialta will be implementing new systems to replace the duplicated versions of ESS' systems, and Vialta expects to have fully independent systems in place by the end of 2001. The implementation of these new information systems will require the services of employees with extensive knowledge of these information systems and the business environment in which Vialta operates. In order to successfully implement and operate its systems, Vialta must be able to attract and retain a significant number of qualified employees. If Vialta fails to attract and retain the qualified personnel required to implement, maintain and operate its information systems, its business could suffer. Even if Vialta is able to attract and retain the required personnel, Vialta may not be successful in implementing the new systems and transitioning data from the duplicated versions of ESS' systems to its new systems. Any failure or significant downtime in ESS' or Vialta's own information systems could harm Vialta's business.

CONFLICTS OF INTEREST MAY ARISE BECAUSE SOME OF VIALTA'S DIRECTORS AND ITS CHAIRMAN AND CHIEF EXECUTIVE OFFICER WILL OWN SECURITIES OF BOTH ESS AND VIALTA AND SOME OF VIALTA'S DIRECTORS SERVE AS DIRECTORS OF ESS.

Some of Vialta's directors and executive officers own significant amounts of ESS stock and options to purchase ESS stock, and Fred S.L. Chan, Vialta's Chairman and Chief Executive Officer, owns a significant amount of ESS and Vialta stock. Following the distribution, these directors and executive officers will also own significant amounts of Vialta stock and Mr. Chan will own an even greater amount of Vialta stock. Mr. Chan and Matthew K. Fong, a member of Vialta's board of directors, are also board members of ESS. These factors could create, or appear to create, potential conflicts of interest when these directors and executive officers are faced with decisions that could have different implications for ESS and Vialta.

RISKS RELATED TO VIALTA'S BUSINESS

IF VIALTA IS UNABLE TO COMPLETE THE RETAIL LAUNCH OF THE ViDVD PRIOR TO THE 2001 HOLIDAY SHOPPING SEASON, VIALTA'S RESULTS OF OPERATIONS AND FUTURE PERFORMANCE WILL BE SUBSTANTIALLY HARMED.

A substantial proportion of annual sales of DVD players and other home entertainment products occur during the holiday shopping season, and launching the ViDVD immediately prior to the beginning of that season is expected to enable Vialta to increase shipments of the ViDVD more rapidly than if the launch occurs during another time of the year. However, most major consumer electronics retailers require that a new product at least be in the final stages of testing by the end of August before that product will be cleared for sales during the subsequent holiday season. If Vialta does not meet this deadline, it will only be able to sell through smaller retailers during the 2001 holiday season, which would cause Vialta's shipment volume for the fourth quarter of 2001 to be significantly lower than anticipated.

Depending on the terms of sale between Vialta and its customers (which are yet to be determined), Vialta may not recognize revenue for a significant period of time after it ships product. Return policies and price concessions negotiated by customers may result in Vialta deferring revenue until it has sufficient experience estimating returns and potential price concessions. In addition, due to Vialta's need for

significant cash flow from its shipments during the 2001 holiday shopping season to fund the planned expansion of its operations during the first, second and third quarters of 2002, any failure by Vialta to timely complete the launch of

the ViDVD will also adversely affect Vialta's quarterly operating results during those subsequent quarters. Further, any delay in the launch would reduce the amount of revenue that is generated from the initial sales of the ViDVD during the holiday season, which would impair Vialta's ability to develop the new Digital Home System products and features that are critical to the continued operation of its business. Accordingly, even a slight delay in the timing of the launch of the ViDVD could have a significant negative impact on Vialta's future performance.

IF VIALTA'S RETAIL LAUNCH IS UNSUCCESSFUL, IT MAY NOT BE ABLE TO CONTINUE OPERATING ITS BUSINESS.

Vialta's success is highly dependent upon a successful retail launch of its initial Digital Home System product, the ViDVD, which is expected to begin in August 2001. A successful retail launch will require, among other things, that Vialta:

- coordinate all of the logistical elements necessary to complete the launch in a timely manner;
- educate consumers on the benefits of the ViDVD and Vialta's related ViMedia content delivery service;
- commit a substantial amount of human and financial resources to secure partnerships supporting the retail distribution of the ViDVD and Vialta's related ViMedia content delivery service;
- coordinate its own sales, marketing and support activities with those of its strategic partners; and
- develop consumer acceptance of the ViDVD and Vialta's related ViMedia content delivery service.

Vialta may not achieve any or all of these objectives. In particular, consumers may perceive the ViDVD as too expensive or complex or its sales and marketing efforts may not effectively attract new purchasers. Moreover, because of competitive offerings, changing preferences or the anticipated release of future models with additional features, consumers may delay or decline the purchase of the ViDVD. Any failure by Vialta to achieve any of these objectives would reduce consumer demand and market acceptance and impair Vialta's ability to continue operating its business.

VIALTA IS A DEVELOPMENT STAGE ENTERPRISE, HAS NOT RECOGNIZED ANY REVENUE, HAS INCURRED SIGNIFICANT NET LOSSES AND MAY NEVER ACHIEVE SIGNIFICANT REVENUES OR PROFITABILITY.

Vialta is a development stage enterprise that is still in the process of developing and introducing its first product. Vialta has not recognized any revenue, has incurred significant losses and has had substantial negative cash flow. As of March 31, 2001, it had an accumulated deficit of \$29.2 million. Vialta expects to incur significant operating expenses over the next several years in connection with the continued development and expansion of its business. As a result, it expects to continue to lose money for the foreseeable future. Although the size of these net losses will depend in part on the success of its product launch, the growth in sales of its products and services and the rate of increase in its expenses, Vialta's losses have been increasing and are expected to continue to increase in future periods. With increased expenses, Vialta will need to generate significant revenues to achieve profitability. Several factors, including market acceptance, competitive factors and Vialta's ability to successfully develop and market its ViMedia content delivery service, make it impossible to predict with any degree of assurance when or whether Vialta will generate sufficient revenues to attain profitability. Consequently, Vialta may never achieve significant revenues or profitability, and even if it does, it may not sustain or increase profitability on a quarterly or annual basis in the future.

IF VIALTA IS UNABLE TO RAISE ADDITIONAL CAPITAL ON ACCEPTABLE TERMS, ITS ABILITY TO DEVELOP AND MARKET ITS PRODUCTS AND SERVICES AND GROW AND OPERATE ITS BUSINESS COULD BE HARMED.

To emerge from the development stage, introduce its follow-on products and services and sustain and grow its business, Vialta must continue to make significant investments in research and development to

develop, enhance and market its products and services. Vialta will also need

significant working capital to take advantage of future opportunities and to respond to competitive pressures or unanticipated requirements. Vialta expects that its existing capital resources will be sufficient to meet its cash requirements through the 12 month period following the date of the distribution, although Vialta's current resources could be exhausted more quickly depending on the payment terms that Vialta is able to negotiate with its vendors and suppliers and Vialta's success in collecting on accounts receivable. The magnitude of Vialta's future capital requirements will depend on many factors, including, among others, product development expense levels, investments in working capital, and the amount of income generated by operations. When Vialta does need to raise additional capital, that capital may not be available on acceptable terms, or at all. If Vialta cannot raise necessary additional capital on acceptable terms, it may not be able to develop or enhance its products and services, take advantage of future opportunities, respond to competitive pressures or unanticipated requirements or even continue operating its business.

If additional capital is raised through the issuance of equity securities, the percentage ownership of Vialta's existing stockholders will decline, stockholders may experience dilution in net book value per share, and these equity securities may have rights, preferences or privileges senior to those of the holders of its common stock. Any debt financing, if available, may involve covenants limiting or restricting Vialta's operations or future opportunities.

VIALTA'S LIMITED OPERATING HISTORY MAY MAKE IT DIFFICULT FOR IT OR INVESTORS TO EVALUATE TRENDS AND OTHER FACTORS THAT AFFECT ITS BUSINESS.

Vialta was incorporated in April 1999 and its operations to date have consisted primarily of product development efforts. To date, Vialta has only manufactured and shipped a limited number of commercial ViDVD beta testing units as part of its research and development efforts, and commercial distribution of the ViDVD has not yet begun. In addition, Vialta has only entered into a limited number of agreements to acquire the content to be delivered as part of its Vialta content delivery service, and no ViMedia discs have been distributed. As a result of Vialta's limited operating history, its historical financial and operating information is of limited value in evaluating its future operating results. In addition, any evaluation of Vialta's business and prospects must be made in light of the risks and difficulties encountered by companies offering products or services in new and rapidly evolving markets. For example, it may be difficult to accurately predict Vialta's future revenues, costs of revenues, expenses or results of operations. The ViDVD, the ViMedia content delivery service and Vialta's other anticipated Digital Home Systems products and services represent new product and service offerings for most consumers, and it may be difficult to predict the future growth rate, if any, or size of the market for those products and services. Vialta may be unable to accurately forecast customer behavior and recognize or respond to emerging trends, changing preferences or competitive factors facing it. As a result, Vialta may be unable to make accurate financial forecasts and adjust its spending in a timely manner to compensate for any unexpected revenue shortfall. This inability could cause its net losses in a given quarter to be greater than expected, which could cause the price of Vialta's stock to decline.

VIALTA FACES INTENSE COMPETITION FROM PARTICIPANTS IN BOTH THE MULTIMEDIA APPLIANCE AND THE HOME ENTERTAINMENT MARKETS, WHICH MAY IMPAIR ITS REVENUES AND ABILITY TO GENERATE CUSTOMERS.

The multimedia appliance and home entertainment markets are intensely competitive and rapidly evolving. In addition, there are few barriers to entry into the multimedia appliance and home entertainment markets, and new entrants to these markets may develop and offer products that will compete directly with Vialta's products and services.

The multimedia appliance industry in particular is characterized by rapid technological innovation and intense price competition, and the competition for consumer spending and acceptance is intense. The ViDVD will compete directly with several other currently available or soon to be introduced multimedia appliance offerings from major consumer electronics manufacturers, such as Apex, Toshiba, Raite and Samsung, and with products developed by smaller companies, including the i2DVD, Neon, nReady and

TVPC products. Like the ViDVD, nearly all of these products accommodate media in DVD, CD and MP3 format, many offer Web access capabilities, and some include a karaoke feature.

In addition, as a home entertainment product, Vialta expects that the ViDVD will also compete with:

- standard DVD and CD players;

- the Sony PlayStation 2, the Microsoft Xbox and other web-enabled, multi-function game players;
- personal computers;
- WebTV and other television-based Internet appliances;
- Web-enabled wireless telephones and PDAs;
- karaoke machines; and
- video cassette recorders and laser disc players.

As a home entertainment content delivery medium, Vialta also expects that its ViMedia content delivery service will compete with:

- video-on-demand services;
- traditional broadcast, cable or satellite television programming; and
- video cassette, DVD and video game cartridge rental stores and retailers.

Most of these products and services are already widely available through retail distribution channels, and many of these products are already familiar to and accepted by consumers. In addition, most of the manufacturers and distributors of these competing home entertainment products and services have substantially greater brand recognition, market presence, distribution channels, advertising and marketing budgets and promotional and other strategic partners than Vialta.

VIALTA EXPECTS THE AVERAGE SELLING PRICES OF ITS DIGITAL HOME SYSTEM PRODUCTS TO DECREASE, WHICH MAY REDUCE ITS GROSS MARGINS OR REVENUE.

The prices of multimedia appliance products are expected to decline rapidly as more products enter retail distribution and competition and volume increase. In particular, Vialta expects significant price reductions and increased sales discounts in the fourth quarter of 2001 as numerous competing manufacturers attempt to establish their microprocessors as the standard in the industry in connection with the holiday selling season. Vialta anticipates that the average selling prices of its Digital Home System products will decrease in response to these competitive pricing pressures as well as in response to new product introductions by Vialta or its competitors and increasing availability of relatively inexpensive products that can perform some of its products' functions. If Vialta is unable to sufficiently reduce costs and increase sales volumes, this decline in average selling prices will reduce its revenue and gross margins.

IF VIALTA FAILS TO OVERCOME TECHNICAL CHALLENGES ASSOCIATED WITH THE FULL DEVELOPMENT AND IMPLEMENTATION OF ITS VIMEDIA CONTENT DELIVERY SERVICE OR OBTAIN SUFFICIENT CONTENT TO ATTRACT CUSTOMERS, THE VIMEDIA CONTENT DELIVERY SERVICE MAY NOT ACHIEVE MARKET ACCEPTANCE OR GENERATE SUFFICIENT REVENUE TO SUSTAIN ITS OPERATION.

The success of the ViMedia content delivery service depends in part on Vialta's ability to acquire and deliver content that interests its customers. Most of the major producers of audio and video content in the entertainment industry will only permit their content to be distributed at commercially attractive prices if it is protected using approved encryption technologies. Vialta's own proprietary encryption system has not yet been adopted by the entertainment industry as an approved encryption technology, and, unless or until that occurs, Vialta may not be able to distribute content licensed from major entertainment companies in its proprietary ViMedia format. Although discs that include content in DVD and CD format may be played on a ViDVD player, content that is encoded in those conventional formats takes significantly more

disc space, and Vialta is still in the process of conducting research and development to enable certain aspects of its encryption technology to work with those other formats. Unless Vialta is able to either obtain entertainment industry acceptance of its proprietary encryption system or overcome the technical challenges associated with using its encryption with conventional formats, the ViMedia content delivery service may not achieve market acceptance or generate sufficient revenue to sustain its operation.

IF VIALTA FAILS TO DEVELOP AND MARKET NEW DIGITAL HOME SYSTEM PRODUCTS OR TO ADD FEATURES TO ITS EXISTING DIGITAL HOME SYSTEM PRODUCT, IT MAY NOT BE ABLE TO GENERATE SUFFICIENT REVENUES TO SUSTAIN ITS BUSINESS.

Vialta's success is highly dependent upon the continued successful development and timely introduction of new Digital Home System products and new models of its existing Digital Home System product containing additional features. The success of new products and new models with additional features depends on a number of factors, including strategic allocation of limited financial and technical resources, accurate forecasting of consumer demand, timely completion of product development, and market and industry acceptance of Vialta's existing Digital Home System product. Many of Vialta's planned product and feature introductions are still in the early stages of development and will require substantial engineering and technical resources to bring to market. The success of some of Vialta's planned products may also require industry acceptance of Vialta's proprietary technologies or the adaptation of Vialta's products and technologies to accommodate the use of existing industry-accepted technologies. If Vialta fails to develop and market new products and features, it may not be able to generate sufficient revenues from its initial Digital Home System product to sustain its business.

IT MAY TAKE A SUBSTANTIAL AMOUNT OF TIME AND RESOURCES TO ACHIEVE BROAD MARKET ACCEPTANCE OF VIALTA'S PRODUCTS AND SERVICES, AND VIALTA CANNOT BE SURE THAT THESE EFFORTS WILL GENERATE THE LEVEL OF BROAD MARKET ACCEPTANCE OF ITS PRODUCTS AND SERVICES NECESSARY TO GENERATE SUFFICIENT REVENUES TO SUSTAIN ITS BUSINESS.

Although many consumers are familiar with standard DVD players, Vialta's ViDVD player initially will be one of only a few DVD products to include Internet access and MP3 and karaoke player capability. Consumers may perceive little or no benefit from combining these functionalities in one unit or may already own other products that provide one or more of these functionalities. As a result, consumers may not value, and may be unwilling to pay for the ViDVD. In addition, the ViMedia content delivery service is expected to be the first home entertainment content provider that is expected to enable consumers to purchase the specific content that interests them from a broad spectrum of content made available to the consumer on a previously distributed disc. Potential customers may not perceive a benefit in purchasing content in this manner and may already subscribe to or otherwise have access to similar content from other sources. Vialta also does not have an established brand image, nor does Vialta expect to spend significant marketing expenses to build and promote a brand image. Accordingly, to develop market acceptance of the ViDVD player, the ViMedia content delivery service and Vialta's anticipated future Digital Home System products and services, Vialta will need to devote a substantial amount of resources to educate consumers about the features and benefits of its products and services, and broad market acceptance of the ViDVD may not be obtained for a period of two years or more from the launch date of the ViDVD, if at all. Moreover, Vialta cannot assure you that this commitment of time and resources will be successful in developing the broad market acceptance of Vialta's Digital Home System products and services necessary to generate the revenues required to sustain Vialta's business.

VIALTA MAY NOT BE ABLE TO GENERATE SUFFICIENT REVENUE FROM THE VIMEDIA CONTENT DELIVERY SERVICE TO SUPPORT ITS CONTINUED OPERATION, AND ANY TERMINATION OF THE VIMEDIA SERVICE COULD REDUCE DEMAND FOR THE VIDVD PLAYER.

Vialta expects to charge its customers content access fees for access to portions of the content distributed via its ViMedia content delivery service. Many potential ViMedia end users already pay monthly fees for cable or satellite television services. Vialta must convince these consumers to pay additional fees to gain access to the content delivered on its ViMedia discs. The availability of competing

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services that do not require subscription or other access fees will harm Vialta's ability to effectively attract paying end users. In addition, the ViDVD player that enables the consumer to access the content provided by Vialta's ViMedia service can be used to view or listen to other DVDs and CDs or to access material on the Internet without payment for any of Vialta's ViMedia content. If a significant number of purchasers of Vialta ViDVD players use these devices without purchasing ViMedia content, the ViMedia service may not generate sufficient revenue to support its continued operation, which could reduce demand for the ViDVD player.

VIALTA EXPECTS TO DEPEND ON ESS AND A LIMITED NUMBER OF OTHER THIRD PARTIES TO MANUFACTURE AND SUPPLY CRITICAL COMPONENTS FOR ITS DIGITAL HOME SYSTEM PRODUCTS AND SERVICES, AND IT MAY BE UNABLE TO OPERATE ITS BUSINESS IF THOSE PARTIES DO NOT PERFORM THEIR OBLIGATIONS.

Vialta expects to rely on ESS and a limited number of other third party suppliers for a number of key components of its Digital Home System products, including DRAM chips and flash memory chips. Vialta does not have long-term

agreements in place with its suppliers. Vialta also expects to rely on a limited number of third party content providers to supply the content to be distributed as part of the ViMedia content delivery service. Vialta does not control the time and resources that these third parties devote to its business. Vialta cannot be sure that these parties will perform their obligations as expected or that any revenue, cost savings or other benefits will be derived from the efforts of these parties. Vialta's need for semiconductors as a key component of its Digital Home System products indirectly subjects Vialta to a number of risks relating to ESS' and any future semiconductor suppliers' reliance on independent foundries to produce those semiconductors, including the absence of adequate capacity, the unavailability of, or interruption in access to, certain process technologies and reduced control over delivery schedules, manufacturing yields and costs, and risks related to the international location of most major foundries. If any of Vialta's third party suppliers or content providers breaches or terminates its agreement with Vialta or otherwise fails to perform its obligations in a timely manner, Vialta may be delayed or prevented from commercializing its products and services. Because Vialta's relationships with these parties are non-exclusive, they may also support products or services that compete directly with Vialta's, or offer similar or greater support to its competitors. Any of these events could require Vialta to undertake unforeseen additional responsibilities or devote additional resources to commercialize its products and services. This outcome would harm Vialta's ability to compete effectively and quickly achieve market acceptance and brand recognition.

IF VIALTA IS UNABLE TO ESTABLISH AND MAINTAIN SATISFACTORY RELATIONSHIPS WITH THE DISTRIBUTORS AND RETAILERS THAT IT EXPECTS TO SELL ITS PRODUCTS AND SERVICES, ITS BUSINESS WILL SUFFER.

Vialta has not yet entered into agreements with the distributors and retailers that it expects to sell its products and services, and Vialta may not be able to retain or attract a sufficient number of qualified distributors and retailers. In establishing relationships with distributors and retailers, Vialta may be forced to accept arrangements under which Vialta will not receive payment for its products until these products are sold to end users. Even if product shipments begin in August 2001, under Staff Accounting Bulletin No. 101 issued by the Securities and Exchange Commission, the recording of revenues may be delayed depending on the terms of such shipments and the Company's ability to estimate potential returns and future price adjustments. Vialta may also have to enter into revenue sharing or other arrangements with these distributors and retailers in order to provide additional incentives for such entities to actively market its products. In addition, Vialta expects that its distributors and retailers will sell products and services offered by its competitors. If Vialta's competitors offer its distributors and retailers more favorable terms or have more products available to meet their needs, those distributors and retailers may decline to carry Vialta's products and services. Other retailers may decline to carry Vialta's products because they believe the ViDVD and the potential complementary ViMedia content delivery service will decrease their sales of content such as DVDs and CDs. Further, even if they do carry Vialta's products, distributors and retailers may not recommend, or continue to recommend, those products. If Vialta is unable to maintain successful relationships with distributors and retailers or to expand its distribution channels, its business will suffer.

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VIALTA PLANS TO EXPAND ITS BUSINESS, AND ITS FAILURE TO MANAGE GROWTH COULD DISRUPT ITS BUSINESS AND IMPAIR ITS ABILITY TO GENERATE REVENUES.

Since Vialta began its business in April 1999, it has significantly expanded its headcount, facilities and infrastructure. Vialta anticipates continued expansion in these areas to support potential sales growth and to allow it to pursue market opportunities. This expansion has placed, and will continue to place, a significant strain on Vialta's management, operational and financial resources and systems. Specific risks Vialta faces as its business expands include:

- Vialta will need to attract and retain qualified personnel, and any failure to do so may impair its ability to offer new products or grow its business. Vialta's success will depend on its ability to attract, retain and motivate managerial, technical, marketing, administrative and customer support personnel. Competition for such employees is intense, and Vialta may be unable to successfully attract, integrate or retain sufficiently qualified personnel. If it is unable to hire, train, retain and manage required personnel, it may be unable to successfully introduce new products or otherwise implement its business strategy.

- Any inability of Vialta's systems to accommodate growth in subscribers to the ViMedia content delivery service may cause service interruptions. Vialta has internally developed or is in the process of developing the systems that will be used to run the ViMedia content delivery service and perform other processing functions. The ability of these systems to scale as Vialta adds new subscribers is unproven. Vialta will have to continually improve these systems to accommodate subscriber growth. Any inability by Vialta to add additional software and hardware or to upgrade its technology, systems or network infrastructure in response to subscriber growth could adversely affect its business or cause service interruptions.

- Vialta will need to provide acceptable customer support, and any inability to do so will impair its ability to develop consumer acceptance of its products. Vialta expects that some of its customers will require significant support when installing the ViDVD player and becoming acquainted with the features and functionality of the ViDVD and its interface. In addition, Vialta customers who elect to use Vialta as their Internet service provider may require frequent support when accessing the Internet. Vialta also anticipates that purchasers of future Digital Home System products and services will require support in their use of such products and services. Vialta does not have experience with widespread deployment of its products and services to a diverse customer base, and it may not have adequate personnel to provide the levels of support that its customers will require. Vialta's failure to provide adequate customer support for its Digital Home System products or services will damage its reputation in the consumer electronics marketplace and strain its relationships with customers and strategic partners. This could prevent Vialta from gaining new or retaining existing customers and could harm its reputation and brand.

- Vialta will need to build an infrastructure to support the anticipated sale of ViDVD players over the Internet. This infrastructure will include the operational systems and controls necessary to conduct sales over the Internet, including transaction processing, inventory management and payment processing functions. Any failure by Vialta to develop and maintain this infrastructure could hurt its ability to successfully conduct sales over the Internet, which could prevent Vialta from establishing and maintaining customer relationships and increasing its sales volume.

- Vialta will need to improve its operational and financial systems to support its expected growth, and any inability to do so will adversely impact its ability to grow its business. To manage the expected growth of its operations and personnel, Vialta will need to improve its operational and financial systems, procedures and controls. Vialta's current and planned systems, procedures and controls may not be adequate to support its future operations and expected growth. Delays or problems associated with any improvement or expansion of its operational systems and controls could adversely impact its relationships with customers and harm its reputation and brand.

PRODUCT DEFECTS, SYSTEM FAILURES OR INTERRUPTIONS MAY HAVE A NEGATIVE IMPACT ON VIALTA'S REVENUES, DAMAGE VIALTA'S REPUTATION AND DECREASE VIALTA'S ABILITY TO ATTRACT NEW CUSTOMERS.

Errors and product defects can result in significant warranty and repair problems, which could cause customer relations problems. Correcting product defects requires significant time and resources, which could delay product releases and affect market acceptance of Vialta's products. Any delivery by Vialta of products with undetected material product defects could harm Vialta's credibility and market acceptance of its products.

Vialta's ability to process purchases of content from its ViMedia content delivery service and to provide uninterrupted access to the Internet will depend on the efficient and uninterrupted operation of its computer and communications systems. Vialta's computer hardware and other operating systems are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures and similar events. They are also subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Although Vialta has taken precautions against such damage, including installing backup servers as part of Vialta's network infrastructure, a natural disaster or other unanticipated problems at one or more of Vialta's facilities could result in interruptions in its business. These types of interruptions may reduce Vialta's revenues and profits. Vialta's business also will be harmed if consumers believe its ViMedia content delivery service or its Internet service is unreliable. In addition to placing increased burdens on Vialta's technical

staff, service outages may create a large number of customer questions and complaints that must be responded to by Vialta's customer support personnel. Any damage to, or failure of, Vialta's systems could result in reductions in, or terminations of, services supplied to its customers, which could have a material adverse effect on Vialta's business and irreparably damage Vialta's reputation and ability to attract new customers.

VIALTA'S FUTURE RESULTS COULD BE HARMED BY ECONOMIC, POLITICAL, REGULATORY AND OTHER RISKS ASSOCIATED WITH ITS RELIANCE ON INTERNATIONAL SALES AND OPERATIONS.

Substantially all of Vialta's products are anticipated to be manufactured, assembled and tested by independent third parties in China. In addition, most of Vialta's suppliers are located in China, Hong Kong and Taiwan. Vialta also anticipates that revenue from international sales will represent a significant portion of its total revenue, as one of Vialta's strategic partners is also located in China and Vialta expects that it will enter into sales and distribution arrangements with other firms located in China, Taiwan and other foreign countries. Because of its international operations and relationships, and its reliance on foreign third-party manufacturing, assembly and testing operations, Vialta is subject to the risks of conducting business outside of the United States, including:

- changes in political and strategic relations between China, Taiwan and the United States;
- changes in foreign currency exchange rates;
- changes in a specific country's or region's political or economic conditions, particularly in China, Taiwan and other emerging Asian markets;
- trade protection measures and import or export licensing requirements;
- potentially negative consequences from changes in tax laws;
- difficulty in managing widespread sales and manufacturing operations; and
- less effective protection of intellectual property.

VIALTA'S SUCCESS PARTLY DEPENDS ON ITS ABILITY TO SECURE AND PROTECT ITS PROPRIETARY RIGHTS.

Vialta's success and ability to compete are partly dependent upon its internally developed technology. Vialta relies on patent, trademark and copyright law, trade secret protection and confidentiality or license agreements with Vialta's employees, customers, partners and others to protect its proprietary rights. However, the steps Vialta takes to protect its proprietary rights may be inadequate. Vialta has filed two

U.S. patent applications, one to cover ViDVD proprietary functions and digital encoder and decoder solutions and another to cover videophone technology. In addition, Vialta has neither sought nor obtained any foreign patents covering any of its technology, and may no longer be able to seek foreign patent protection for some of its technology. To date, no patents have been issued, and Vialta cannot assure you that any patents will ever be issued, that any issued patents will protect its intellectual property or that third parties will not challenge any issued patents. Moreover, other parties may independently develop similar or competing technologies designed around any patents that may be issued to Vialta.

The laws of certain foreign countries in which Vialta's products are or may be designed, manufactured or sold, including various countries in Asia, may not protect its products or intellectual property rights to the same extent as do the laws of the United States, and thus make the possibility of piracy of its technology more likely. Vialta cannot assure you that the steps taken by Vialta to protect its proprietary information will be adequate to prevent misappropriation of its technology or that Vialta's competitors will not independently develop technologies that are substantially equivalent or superior to its technology. Vialta's failure to protect its proprietary rights could harm its business.

ANY FAILURE BY VIALTA TO OBTAIN THE LICENSES OF INTELLECTUAL PROPERTY REQUIRED FOR THE OPERATION OF VIALTA'S BUSINESS ON ACCEPTABLE TERMS COULD ADVERSELY AFFECT VIALTA'S OPERATING RESULTS.

Vialta relies on licenses of intellectual property from third parties for use in its business. Although Vialta believes that it currently holds all licenses necessary to manufacture and sell its ViDVD players, these licenses are subject to the terms of the agreements under which they were acquired by Vialta, and Vialta likely will be required to renegotiate its existing licenses in the future. Although Vialta has already licensed selected audio and video content to be distributed as part of the ViMedia content delivery service, Vialta will need to obtain licenses to a substantially greater volume of content for the ViMedia service to be successful. Vialta will also have to negotiate to acquire any new licenses required for the development, manufacture and sale of its future products and services. Vialta cannot assure you that any of these licenses will be available in the future, and even if these licenses are available, they may not be available on favorable terms and may require Vialta to pay new or additional royalties on the sale of its Digital Home Systems products and services. In addition, Vialta's ability to negotiate favorable license terms may decrease after the distribution and the restructuring of Vialta's relationship with ESS. Any failure by Vialta to obtain the licenses of intellectual property required for the operation of Vialta's business on acceptable terms could adversely affect Vialta's operating results.

VIALTA MAY BE SUBJECT TO CLAIMS THAT ITS INTELLECTUAL PROPERTY INFRINGES UPON THE PROPRIETARY RIGHTS OF OTHERS, AND A SUCCESSFUL CLAIM COULD HARM VIALTA'S ABILITY TO SELL AND DEVELOP ITS PRODUCTS.

If other parties claim that Vialta's products infringe upon their intellectual property, Vialta could be forced to defend itself or its customers, manufacturers or suppliers against those claims. Vialta could incur substantial costs to prosecute or defend those claims. A successful claim of infringement against Vialta, or any failure or inability of Vialta to develop non-infringing technology or license the infringed technology on acceptable terms and on a timely basis, could harm its business, financial condition and results of operations.

IF VIALTA LOSES KEY MANAGEMENT PERSONNEL, IT MAY NOT BE ABLE TO SUCCESSFULLY OPERATE ITS BUSINESS.

Vialta's future performance will be substantially dependent on the continued services of its senior management, especially its Chairman and Chief Executive Officer, Fred S.L. Chan, its President, Didier Pietri, and other key personnel. The loss of any members of Vialta's executive management team and its inability to hire additional executive management could harm its business and results of operations. Vialta employs its key personnel on an at-will basis. Vialta does not maintain key person insurance policies on any of the members of its executive management team.

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ANY FUTURE BUSINESS ACQUISITIONS MAY DISRUPT VIALTA'S BUSINESS, DILUTE STOCKHOLDER VALUE OR DISTRACT MANAGEMENT ATTENTION.

As part of Vialta's ongoing business strategy, it may consider additional acquisitions of, or significant investments in, businesses that offer products, services and technologies complementary to its own. In particular, Vialta may pursue acquisitions and strategic alliances as a means of acquiring content to be included on Vialta's ViMedia discs. Such acquisitions could materially adversely affect Vialta's operating results and/or the price of its stock. Acquisitions also entail numerous risks, including:

- difficulty of assimilating the operations, products and personnel of the acquired businesses;
- potential disruption of Vialta's ongoing business;
- unanticipated costs associated with the acquisition;
- inability of management to manage the financial and strategic position of acquired or developed products, services and technologies;
- inability to maintain uniform standards, controls, policies and

procedures; and

- impairment of relationships with employees and customers that may occur as a result of integration of the acquired business.

To the extent that shares of Vialta's stock or other rights to purchase stock are issued in connection with any future acquisitions, dilution to Vialta's existing stockholders will result and Vialta's earnings per share may suffer. Any future acquisitions or strategic investments may not generate additional revenue or provide any benefit to Vialta's business, and Vialta may not achieve a satisfactory return on its investment in any acquired businesses.

LAWS OR REGULATIONS THAT GOVERN THE CONSUMER ELECTRONICS INDUSTRY, THE TELECOMMUNICATIONS INDUSTRY, COPYRIGHTED WORKS OR THE INTERNET COULD EXPOSE VIALTA TO LEGAL ACTION IF IT FAILS TO COMPLY OR COULD REQUIRE VIALTA TO CHANGE ITS BUSINESS.

Because Vialta's Digital Home System products and services are expected to provide Vialta's customers with access to a variety of entertainment media and methods of electronic communication, it is difficult to predict what laws or regulations will be applicable to Vialta's business. Therefore, it is difficult to anticipate the impact of current or future laws and regulations on Vialta's business. Among the many regulations that may be applicable to Vialta's business are the following:

- Federal Communications Commission regulations relating to the electronic emissions of consumer products;
- Federal Communications Commission regulations relating to consumer products that connect to the public telephone network;
- Regulations relating to the access and use of the Internet issued by various federal and state governmental agencies, legislative bodies and courts, including the Federal Communications Commission, the Federal Trade Commission and the Internal Revenue Service;
- Copyright laws relating to the use of copyrighted audio and video media; and
- Federal export regulations relating to the export of sensitive computer technologies such as encryption and authentication software.

Changes in the regulatory climate or the enforcement or interpretation of existing laws could expose Vialta to legal action if it fails to comply. In addition, any of these regulatory bodies could promulgate new regulations or interpret existing regulations in a manner that would cause Vialta to incur significant compliance costs or force it to alter the features or functionality of Vialta's products and services.

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VIALTA AND MANY OF ITS SUPPLIERS RELY ON A CONTINUOUS POWER SUPPLY TO CONDUCT OPERATIONS, AND CALIFORNIA'S CURRENT ENERGY CRISIS COULD DISRUPT VIALTA'S BUSINESS AND INCREASE ITS EXPENSES.

California is in the midst of an energy crisis that could disrupt Vialta's operations and increase its expenses. In the event of an acute power shortage, that is, when power reserves for California fall below certain levels, California has on some occasions implemented, and may in the future continue to implement, rolling blackouts throughout California. Some of Vialta's suppliers, particularly ESS, are also located in California. In addition, a significant portion of Vialta's non-manufacturing operations are located in California. Vialta currently does not have backup generators or alternate sources of power in the event of a blackout. If blackouts interrupt Vialta's power supply, Vialta may be temporarily unable to continue operations at its California facilities. Any such interruption in Vialta's ability to continue operations at its California facilities could harm its business and results of operations.

RISKS RELATED TO THE SECURITIES MARKETS AND OWNERSHIP OF VIALTA STOCK

SUBSTANTIAL SALES OF VIALTA'S STOCK MAY OCCUR IMMEDIATELY FOLLOWING THE DISTRIBUTION, WHICH COULD CAUSE VIALTA'S STOCK PRICE TO DECLINE.

ESS currently intends to distribute approximately 51,460,881 shares of Vialta Class A common stock to its shareholders. All of these shares will be freely tradable without restriction or further registration, unless the shares are owned by one of Vialta's "affiliates," as that term is defined in Rule 405 of the Securities Act of 1933. Vialta is unable to predict whether significant amounts of Vialta stock will be sold in the open market following the distribution. It is unlikely that a sufficient number of buyers will be in the market at that time. A number of factors, including the significant possibility that the distribution will be taxable to ESS shareholders as of the record date, may cause the recipients of Vialta shares in the distribution to resell those shares immediately. Any sales of substantial amounts of common stock in the public market, or the perception that such sales might occur, whether as a result of the distribution or otherwise, could harm the market price of Vialta's stock.

THERE HAS NEVER BEEN A TRADING MARKET FOR VIALTA'S STOCK AND ONE MAY NOT DEVELOP, WHICH MAY CAUSE VIALTA'S REPORTED STOCK PRICES TO BE VOLATILE AND LIMIT YOUR ABILITY TO SELL YOUR SHARES.

Prior to this distribution, there has been no public market for Vialta's stock. Vialta believes the initial trading volume in its stock will be low given the need for investors to assess its prospects and progress as a public company. In addition, although it is expected that trades in Vialta's Class A stock will be reported on the OTC Bulletin Board, neither Vialta's Class A nor Class B stock will be listed on any securities exchange or designated for quotation on The Nasdaq Stock Market, which may further limit the trading volume. Relatively small trades in its stock could, therefore, have a disproportionate effect on Vialta's reported stock prices.

The OTC Bulletin Board is regulated quotation service that displays real-time quotes, last-sale prices and volume information for shares of stock that are not designated for quotation on Nasdaq or a national securities exchange. Trades in OTC listed shares will only be displayed if the trade is processed by an institution acting as a market maker for those shares. Although there will initially be at least one institution acting as a market maker for Vialta's Class A shares, that institution will not be obligated to continue making a market for any specific period of time. Thus, there can be no assurance that any institution will be acting as a market maker for Vialta's Class A stock at any time. If there is no market maker for Vialta's shares and no trades in those shares are reported, it may be difficult for you to dispose of your shares or even to obtain accurate quotations as to the market price of your shares. Moreover, because the order handling rules adopted by the Securities and Exchange Commission that apply to Nasdaq-listed shares do not apply to OTC listed shares, no market maker will be required to maintain an orderly market in Vialta shares. Accordingly, an order to sell Vialta's shares placed with a market maker may not be processed until buyer for the shares is readily available, if at all, which may further limit your ability to sell your shares at prevailing market prices.

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The stock markets in general, and the markets for consumer electronics and home entertainment stocks in particular, have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may harm the trading prices of Vialta's stock. Vialta cannot assure you that you will be able to resell any of your shares at or above the initial trading price. Any of these factors could adversely affect the liquidity and trading prices of Vialta's stock.

VIALTA'S STOCK WILL MOST LIKELY BE SUBJECT TO THE REQUIREMENTS FOR PENNY STOCKS, WHICH COULD ADVERSELY AFFECT YOUR ABILITY TO SELL AND THE MARKET PRICE OF YOUR SHARES.

Vialta currently expects that its stock will fit the definition of a penny stock. The Securities and Exchange Act of 1934 defines a penny stock as any equity security that is not traded on a national securities exchange or authorized for quotation on The Nasdaq National Market and that has a market price of less than \$5.00 per share, with certain exceptions. Penny stocks are subject to Rule 15g under the Exchange Act, which imposes additional sales practice requirements on broker-dealers who sell such securities. In general, a broker-dealer, prior to a transaction in a penny stock, must deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer must provide the customer with current bid and offer quotations for the penny stock, information about the commission payable to the broker-dealer and its

salesperson in the transaction and monthly statements that disclose recent price information for each penny stock in the customer's account. Finally, prior to any transaction in a penny stock, the broker-dealer must make a special written suitability determination for the purchaser and receive the purchaser's written consent to the transaction prior to sale. All of these requirements may restrict your ability to sell your Vialta stock and could limit the trading volume of Vialta stock and adversely affect the price investors are willing to pay for Vialta stock.

IN THE FUTURE, VIALTA'S REVENUES AND QUARTERLY OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY, WHICH MAY ADVERSELY AFFECT THE MARKET PRICES OF ITS STOCK AND COULD LEAD TO VIALTA BECOMING THE TARGET OF COSTLY SECURITIES CLASS ACTION LITIGATION.

Vialta expects its revenues and operating results to fluctuate significantly due to a number of factors, many of which are outside of its control. Therefore, you should not rely on period-to-period comparisons of results of operations as an indication of Vialta's future performance. It is possible that in some future periods its operating results may fall below the expectations of market analysts and investors. In this event, the market prices of Vialta's stock would likely fall. Factors that may affect Vialta's quarterly operating results include:

- unanticipated failure to timely launch the ViDVD;
- unsuccessful launch of the ViDVD;
- ongoing demand and supply for ViDVD players;
- seasonality and other consumer and advertising trends;
- changes in the economic terms of Vialta's relationships with its strategic partners;
- unanticipated shortfalls in the supply of components necessary for the manufacture of Vialta's products;
- changes in Vialta's pricing policies, the pricing policies of its competitors and general pricing trends in the multimedia appliance market;
- unanticipated shortfalls in revenue due to the fact that Vialta's expenses precede associated revenues;
- changes in estimates of its financial performance or changes in recommendations by securities analysts;

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- release of new or enhanced products or services or introduction of new marketing initiatives by Vialta or its competitors;
- announcements by Vialta or its competitors of the creation or termination of significant strategic partnerships, joint ventures, significant contracts, or acquisitions;
- the market price generally for consumer electronics and home entertainment industry stocks;
- market conditions affecting the home entertainment industry;
- fluctuations in operating results;
- additions or departures of key personnel;
- demand for and consumer acceptance of other anticipated future Digital Home System product and services offerings; and
- general economic conditions.

In the past, securities class action litigation has often been brought against a company following stock price declines. Vialta may be the target of similar litigation in the future if the price of its common stock declines. Securities litigation could result in substantial costs and diversion of management attention and resources, all of which could materially harm Vialta's business, financial condition and results of operations.

SEASONAL TRENDS MAY CAUSE VIALTA'S QUARTERLY OPERATING RESULTS TO FLUCTUATE, WHICH MAY ADVERSELY AFFECT THE MARKET PRICE OF ITS STOCK.

Domestic consumer electronic product sales have traditionally been much higher during the holiday shopping season than during other times of the year. Although predicting consumer demand for Vialta's products will be very difficult, Vialta believes that sales of ViDVD players will be disproportionately high during these periods when compared to other times of the year. As a result, if Vialta is unable to complete the launch of the ViDVD in advance of the 2001 holiday shopping season, Vialta's operating results for the fourth quarter of 2001 will be significantly lower than anticipated. In addition, due to Vialta's need for the cash flow from its shipments during the 2001 holiday shopping season to fund the planned expansion of Vialta's operations during the first, second and third quarters of 2002, any failure by Vialta to timely complete the launch of the ViDVD will also adversely affect Vialta's quarterly operating results during those subsequent quarters. Even if Vialta is successful in completing the launch of the ViDVD in advance of the 2001 holiday shopping season, Vialta's quarterly operating results will still be affected by Vialta's success in the 2001 holiday season and in future holiday seasons. Any fluctuation in Vialta's quarterly operating results may cause the market price of Vialta's Class A shares to decline, and that decline may be substantial if the fluctuation is caused by a delay in the launch of the ViDVD. Finally, if Vialta is unable to accurately forecast and respond to consumer demand for its Digital Home System products, its reputation and brand will suffer, and the market price of its stock would likely fall.

INSIDERS WILL HAVE SUBSTANTIAL VOTING CONTROL OVER VIALTA AFTER THE DISTRIBUTION AND COULD DELAY OR PREVENT VIALTA FROM ENGAGING IN A CHANGE OF CONTROL TRANSACTION AND YOU FROM SELLING YOUR VIALTA SHARES AT A PREMIUM TO THE SHARES' THEN CURRENT MARKET VALUE.

After the distribution, Vialta anticipates that its officers, directors and five percent or greater stockholders will beneficially own or control, directly or indirectly, approximately 18,688,857 Class A shares and approximately 34,111,000 Class B shares, which in the aggregate will represent a 44.5% voting interest in the outstanding shares of Vialta common stock. Fred S.L. Chan, Vialta's Chairman and Chief Executive Officer, will beneficially own or control, directly or indirectly, approximately 18,579,768 Class A shares and approximately 13,200,000 Class B shares, which in the aggregate will represent a 35.5% voting interest in the outstanding shares of Vialta common stock. These stockholders will have the ability to control all matters submitted to Vialta stockholders for approval, including the election and removal of directors and the approval of any business combinations. You can read more about the ownership of Vialta

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shares by its executive officers, directors and principal stockholders in the section entitled "Principal Stockholders."

PROVISIONS IN VIALTA'S CHARTER DOCUMENTS AND DELAWARE LAW MAY DELAY OR PREVENT ACQUISITION OF VIALTA, WHICH COULD DECREASE THE VALUE OF VIALTA'S SHARES.

Vialta's amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire it without the consent of its board of directors. Delaware law also imposes some restrictions on mergers and other business combinations between Vialta and any holder of 15% or more of Vialta's outstanding shares. Although Vialta believes these provisions provide for an opportunity to receive a higher bid by requiring potential acquirers to negotiate with its board of directors, these provisions apply even if the offer may be considered beneficial by some stockholders.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This information statement, including the sections entitled "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business" contains forward-looking statements. These statements relate to future events or Vialta's future financial performance and involve known and unknown risks, uncertainties and other factors that may cause Vialta or Vialta's industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, those listed under "Risk Factors" and elsewhere in this information statement. In some

cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined under "Risk Factors." These and other factors may cause Vialta's actual results to differ materially from any forward-looking statement.

DIVIDEND POLICY

Vialta has never declared or paid cash dividends on its capital stock, and does not anticipate paying any cash dividends on its capital stock in the foreseeable future. Vialta currently anticipates that it will retain all of its future earnings for use in the development and expansion of its business and for general corporate purposes. Future dividends, if any, will be at the discretion of its board of directors and will depend upon its financial condition, operating results and other factors as determined by its board of directors. In addition, any agreement between Vialta and future lenders may restrict its ability to pay dividends.

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SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated financial data set forth below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Vialta's consolidated financial statements and related notes included elsewhere in this information statement. The selected consolidated statement of operations data set forth below for the periods from Vialta's inception to December 31, 1999 and for the year ended December 31, 2000, and the selected consolidated balance sheet data as of December 31, 1999 and 2000 are derived from, and are qualified by reference to, Vialta's audited consolidated financial statements included elsewhere in this information statement.

The consolidated statements of operations data for the three months ended March 31, 2000 and 2001 and for the cumulative period from April 20, 1999 through March 31, 2001 and the consolidated balance sheet data as of March 31, 2001 and 2000 are derived from unaudited condensed consolidated financial statements included elsewhere in this information statement. In the opinion of Vialta's management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the results of those periods.

The pro forma net loss per share figures give effect to the recapitalization of Vialta and the transfer of approximately 8,939,219 shares of Vialta common stock from ESS to Vialta.

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MARCH 31,		PERIOD FROM APRIL 20, 1999 (DATE OF INCEPTION) THROUGH MARCH 31, 2001	YEAR ENDED DECEMBER 31, 2000	PERIOD FROM APRIL 20, 1999 (DATE OF INCEPTION) THROUGH DECEMBER 31, 1999
	2001	2000			
	(IN THOUSANDS EXCEPT PER SHARE DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
CONSOLIDATED STATEMENT OF OPERATIONS DATA					
Operating expenses:					
Research and development.....	\$ 4,528	\$ 5,678	\$ 25,455	\$ 19,558	\$ 1,369
Sales and marketing.....	995	600	4,584	2,927	662
General and administrative.....	2,357	1,153	9,566	6,699	510
Operating loss.....	(7,880)	(7,431)	(39,605)	(29,184)	(2,541)
Interest income and other income (expense), net.....	1,378	1,950	7,962	6,063	521
Interest expense.....	(167)	--	(224)	(57)	--
Loss before income tax benefit.....	(6,669)	(5,481)	(31,867)	(23,178)	(2,020)
Income tax benefit.....	--	65	1,060	260	800
Net loss.....	\$(6,669)	\$(5,416)	\$(30,807)	\$(22,918)	\$(1,220)

Net loss per share, basic and diluted....	\$ (1.07)	\$ (0.87)	\$ (3.68)	\$ (0.71)
Weighted average shares.....	6,231	6,220	6,222	1,716
Pro-forma net loss per share, basic and diluted(1).....	\$ (0.07)	\$ (0.07)	\$ (0.29)	
Weighted average shares(1).....	91,975	89,092	91,247	

</TABLE>

(1) The pro forma net loss per share for the three months ended March 31, 2001 and 2000 and for the year ended December 31, 2000 assume that the exchange of the preferred stock for common stock occurred on January 1, 2000 or the date of original issuance, if later.

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<TABLE>
<CAPTION>

	PRO FORMA			DECEMBER 31,	
	MARCH 31, 2001	MARCH 31, 2001	MARCH 31, 2000	2000	1999
<S>	<C>	<C>	<C>	<C>	<C>
Cash and cash equivalents, short-term investments.....		\$ 98,009	\$132,335	\$136,490	\$112,844
Working capital.....		100,892	129,260	109,870	111,920
Total assets.....		117,449	142,407	153,691	114,580
Notes to related party.....		--	--	30,000	--
Other current liabilities.....		4,021	5,753	3,594	940
Redeemable convertible preferred stock.....		142,600	142,600	142,600	114,780
Total stockholders' equity (deficit).....	\$113,428	(29,172)	(5,081)	(22,503)	(1,140)

</TABLE>

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

The following discussion and analysis of Vialta's financial condition and results of operations should be read in conjunction with "Selected Consolidated Financial Data" and Vialta's consolidated financial statements and related notes and other financial information included elsewhere in this information statement. In addition to historical information, the discussion in this information statement contains certain forward-looking statements that involve risks and uncertainties. Vialta's actual results could differ materially from those anticipated by these forward-looking statements due to many factors, including those described in "Risk Factors" and elsewhere in this information statement.

OVERVIEW

Vialta was incorporated as a wholly-owned subsidiary of ESS on April 20, 1999. Vialta has developed a multi-featured DVD player that offers Internet access and other features that differentiate it from most DVD players currently available in the U.S. consumer market. Vialta's ViDVD player is the first product offering from Vialta's "Digital Home System" platform, which Vialta anticipates will grow to support a family of multimedia Internet appliances, as well as a complementary system for the delivery of home entertainment content. The ViDVD is a multi-purpose home entertainment device that enables consumers to play DVD, CD, MP3, karaoke and other audio and video formats and to browse the Internet through their television. The ViDVD will also be compatible with Vialta's proprietary, encrypted ViMedia discs, which will provide the consumer with the opportunity to select and purchase one or more selections from a variety of videos, karaoke titles and other home entertainment content. Future Vialta products that will be compatible with the Digital Home System platform may include a videophone, DVD burner, hard-disc digital recorder and digital photography functions. Vialta's goal is to make the ViDVD the centerpiece of consumers' home entertainment systems, combining Internet access with the features of several current consumer electronics devices into a single affordable product.

Vialta has had no revenues from operations and has historically used vendor credit and private offerings of convertible preferred stock and common stock to fund its operations and provide for capital requirements during its development stage. For the three months ended March 31, 2001 and March 31, 2000, Vialta had net losses of \$6.7 million and \$5.4 million, respectively, and expects to continue to incur an increased level of losses in the second and third quarters of 2001. The losses reflect Vialta's cash burn rate for the periods indicated. From inception through March 31, 2001 Vialta had a net loss of \$30.8 million. Vialta expects to commence shipments of the ViDVD during the third quarter of 2001 and, as a result, to experience a significant increase in working capital requirements due to internal and channel inventory requirements, which may be partially offset by extended credit terms from suppliers.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 COMPARED WITH THE THREE MONTHS ENDED MARCH 31, 2000

The following table discloses key elements of the statements of operations, expressed as a percentage of total operating expenses.

<TABLE>

<CAPTION>

	THREE MONTHS ENDED	
	MARCH 31, 2001	MARCH 31, 2000
<S>	<C>	<C>
Operating expenses:		
Research and development.....	57.5%	76.4%
Sales and marketing.....	12.6	8.1
General and administrative.....	29.9	15.5
	----	----
Operating loss.....	100.0	100.0
Nonoperating income, net.....	15.4	26.2
	----	----
Loss before income tax benefit.....	84.6	73.8
	----	----
Income tax benefit.....	--	0.9
	----	----
Net loss.....	84.6%	72.9%
	=====	=====

</TABLE>

Research and Development. Research and development expenses were \$4.5 million for the three months ended March 31, 2001, or 57.5% of operating expenses, compared to \$5.7 million, or 76.4% of operating expenses for the three months ended March 31, 2000. The decrease was primarily due to a nonrecurring purchase of technology from a related party in the amount of \$2.0 million in the first quarter of 2000. The decrease was offset by increases in payroll and other expenses due to increased headcount and operating supplies as Vialta has expanded development efforts. Vialta expects research and development spending to increase in future periods as it continues to develop product enhancements and additional products and services.

Sales and Marketing. Sales and marketing expenses were \$1.0 million for the three months ended March 31, 2001, or 12.6% of operating expenses, compared to \$600,000, or 8.1% of operating expenses, for the three months ended March 31, 2000. The increase was primarily due to increases in payroll and marketing expenses due to increased headcount and product introduction. Vialta expects sales and marketing spending to increase in future periods as it introduces its products.

General and Administrative. General and administrative expenses were \$2.4 million for the three months ended March 31, 2001, or 29.9% of operating expenses, compared to \$1.2 million, or 15.5% of operating expenses, for the three months ended March 31, 2000. The increase was primarily due to increases in payroll and other expenses due to increased headcount and operating supplies as Vialta has expanded development efforts. Vialta expects general and administrative expense spending to increase in future periods as it builds its infrastructure to meet its administrative and operational needs as a stand-alone company.

Nonoperating Income. Net nonoperating income was \$1.2 million for the three months ended March 31, 2001 compared to \$1.9 million for the three months ended

March 31, 2000. Net nonoperating income consists primarily of net interest income. The decrease in net interest income was due to lower cash balances and interest expense of approximately \$167,000 for the three months ended March 31, 2001.

Income Tax Benefit. Vialta did not make a provision for income taxes for the three months ended March 31, 2001 compared to recording an income tax benefit of \$65,000 for the three months ended March 31, 2000. The income tax benefit for the three months ended March 31, 2000 was a reimbursement of \$65,000 from ESS pursuant to tax arrangements between ESS and Vialta as a result of ESS realizing a tax benefit for utilizing Vialta's net operating losses in the three months ended March 31, 2000. No tax benefit has been recognized during the three months ended March 31, 2001 since ESS is not expecting to benefit during fiscal year 2001 from Vialta's net operating losses. Also, Vialta does not expect any tax

expenses during fiscal year 2001 because Vialta does not anticipate any net taxable income during this year.

Net Loss. Vialta incurred a net loss of \$6.7 million for the three months ended March 31, 2001, compared to \$5.4 million for the three months ended March 31, 2000. The increase of \$3.3 million in net loss, net of a \$2.0 million non-recurring purchase of technology during the three months ended March 31, 2000, was primarily due to increased operating expenses associated with Vialta's growth and development.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH THE PERIOD FROM APRIL 20, 1999 (DATE OF INCEPTION) THROUGH DECEMBER 31, 1999

The following table discloses key elements of the statements of operations, expressed as a percentage of total operating expenses.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 2000	PERIOD FROM APRIL 20, 1999 (DATE OF INCEPTION) THROUGH DECEMBER 31, 1999
<S>	<C>	<C>
Operating expenses:		
Research and development.....	67.0%	53.9%
Sales and marketing.....	10.0	26.0
General and administrative.....	23.0	20.1
	----	----
Operating loss.....	100.0	100.0
Nonoperating income, net.....	20.6	20.5
	----	----
Loss before income tax benefit.....	79.4	79.5
Income tax benefit.....	0.9	31.5
	----	----
Net loss.....	78.5%	48.0%
	=====	=====

</TABLE>

Research and Development. Research and development expenses were \$19.6 million for the year ended December 31, 2000, or 67.0% of operating expenses, compared to \$1.4 million, or 53.9% of operating expenses for the period from inception through December 31, 1999. The increase was primarily due to increases in staffing and employee-related expenses, as Vialta ramped up development efforts and expenses relating to the business completing a full year of operations. Vialta also purchased ViPhone and web browser technology from ESS, a related party, in the amount of \$2.0 million in the first quarter of 2000. Vialta expects research and development spending to increase in future periods as it continues to develop additional products and services.

Sales and Marketing. Sales and marketing expenses were \$2.9 million for the year ended December 31, 2000, or 10.0% of operating expenses, compared to \$662,000, or 26.0% of operating expenses, for the period from inception through December 31, 1999. The increase was primarily due to increases in payroll and marketing expenses due to increased headcount and product introduction. Vialta expects sales and marketing spending to increase in future periods as it introduces its products.

General and Administrative. General and administrative expenses were \$6.7 million for the year ended December 31, 2000, or 23.0% of operating expenses,

compared to \$510,000, or 20.1% of operating expenses, for the period from inception through December 31, 1999. The increase was primarily due to increases in payroll and other employee-related expenses as a result of increased headcount and expenses relating to completing a full year of operations. Vialta expects general and administrative expense spending to increase in future periods as it builds its infrastructure to meet its administrative and operational needs as a stand-alone company.

Nonoperating Income. Net nonoperating income was \$6.0 million for the year ended December 1, 2000, or 20.6% of net expenses, compared to \$521,000, or 20.5% of net expenses for the period from inception through December 31, 1999. The increase in net nonoperating income was due to an increase in

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net interest income, which increase was partially offset by a write off of an investment in the amount of \$1.7 million in the third quarter of 2000. Vialta wrote this investment off because it concluded that the investment had suffered an other than temporary decline in value, based on the financial condition of the company in which it had invested. The increase in net interest income in 2000 was due to higher average cash balances.

Income Tax Benefit. Vialta recorded an income tax benefit of \$260,000 for the year ended December 31, 2000, compared to an income tax benefit of \$800,000 for the period from inception to December 31, 1999. Pursuant to a tax arrangement between ESS and Vialta, the income tax benefit for the year ended December 31, 2000 and the period from inception to December 31, 1999 results from ESS realizing a tax benefit for utilizing Vialta's net operating losses. No tax benefit has been recognized during the three months ended March 31, 2001 since ESS is not expecting to benefit during fiscal year 2001 from Vialta's net operating losses. Also, Vialta does not expect any tax expenses during fiscal year 2001 because Vialta does not anticipate any net taxable income during this year.

Net Loss. The net loss was \$22.9 million for the year ended December 31, 2000, or 78.5% of net expenses, compared to \$1.2 million for the period from inception through December 31, 1999, or 48.0% of operating expenses. The increase in net loss was primarily due to increased operating expenses associated with Vialta's growth and development.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2001, Vialta had \$98.0 million in cash, cash equivalents and short-term investments compared to \$136.5 million as of December 31, 2000, representing a decrease of \$38.5 million. The December 31, 2000 figure includes a \$30.0 million loan from a related party controlled by Annie M.H. Chan, a director of ESS and the spouse of Fred S.L. Chan, Chairman and Chief Executive Officer of Vialta. The \$30.0 million short-term loan along with \$194,000 in accrued interest was repaid in January 2001.

Vialta's principal sources of liquidity were cash, cash equivalents and short-term investments. Net cash used in operating activities was approximately \$4.9 million and \$2.7 million for the three months ended March 31, 2001 and March 31, 2000, respectively, representing an increase of approximately \$2.2 million. The increase was primarily due to increased operating expenses incurred by Vialta in its efforts to complete development of its first commercial products and prepare for a product launch by August 2001. For the three months ended March 31, 2001 and March 31, 2000, Vialta had a net loss of \$6.7 million and \$5.4 million, respectively, and expects to continue to incur an increased level of losses in the second and third quarters of 2001. The losses reflect Vialta's cash burn rate for the periods indicated. Vialta expects to begin shipment of its first product during the third quarter of 2001 and, as a result, to experience a significant increase in working capital requirements due to internal and channel inventory requirements, which increase may be partially offset by extended credit terms from suppliers.

Vialta believes that its existing cash and cash equivalents as of March 31, 2001 will be sufficient to fund acquisitions of inventory, property and equipment and provide adequate working capital through at least the 12 month period ending March 31, 2002. However, to achieve its longer term goals of introducing additional products and services to consumers beyond March 31, 2002, Vialta believes it will need to raise additional capital, which may not be available on acceptable terms, if at all. Capital expenditures for the 12 month period ending March 31, 2002 are anticipated to be approximately \$24.8 million to be used primarily for the acquisition of media content licenses and capital

equipment. Net inventory build requirements are expected to be approximately \$52.5 million during the 12 month period ending March 31, 2002. Vialta may also utilize cash to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies and media content which may significantly increase Vialta's planned requirements for capital. In addition, from time to time, in the ordinary course of business, Vialta may evaluate potential acquisitions of or investments in such businesses, products or technologies owned by third parties.

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Vialta has historically used vendor credit as well as private offerings of convertible preferred stock and common stock to fund operations and provide for capital requirements during its development stage. Vialta believes its current cash and cash equivalents together with future private and public equity offerings, as well as private debt offerings including bank financing and credit lines and leases will be sufficient to fund future operations plus planned and unplanned capital and investment activities. However, the price per share of any future equity related financing will be determined at about the time the offering is made and cannot be determined or anticipated at this time. If additional funds are raised through the issuance of equity securities, the percentage ownership of current stockholders may be reduced and such equity securities may have rights, preferences or privileges senior to those of current stockholders. Vialta cannot assure you that additional financing will be available or that, if available, it can be obtained on terms favorable to Vialta and its stockholders. If adequate funds are not available if and when needed, Vialta would be required to delay, limit or eliminate some or all of its proposed operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risks. Vialta invests in short-term investments. Consequently, Vialta is exposed to fluctuation in interest rates on these investments. Increases or decreases in interest rates generally translate into decreases and increases in the fair value of these investments. In addition, the credit worthiness of the issuer, relative values of alternative investments, the liquidity of the instrument, and other general market conditions may affect the fair values of interest rate sensitive investments. In order to reduce the risk from fluctuation in rates, Vialta invests in highly liquid governmental notes and bonds with contractual maturities of less than two years. All of the investments have been classified as available for sale, and at March 31, 2001, the fair market value of Vialta's investments approximated their costs.

Foreign Exchange Risks. Because Vialta's products are manufactured primarily in Asia, Vialta is exposed to market risk from changes in foreign exchange rates, which could affect its results of operations and financial condition. In order to reduce the risk from fluctuation in foreign exchange rates, Vialta's product sales and all of its arrangements with its third party manufacturers and component vendors are denominated in U.S. dollars. Vialta does not engage in any currency hedging activities.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133" ("SFAS 137"). SFAS 133 requires that all derivative financial instruments be recorded on the balance sheet at their fair market value. Changes in the fair market value of derivatives are recorded each period in current earnings or comprehensive income, depending on whether a derivative is designed as a part of a hedge transaction, and if so, the type of hedge transaction. The effective date of SFAS 133, as amended, is for fiscal years beginning after June 15, 2000. Vialta does not currently hold derivative instruments or engage in hedging activities.

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25." FIN 44 clarifies the application of Opinion 25 for (a) the definition of employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000, but certain conclusions cover specific events that occur after either December 15, 1998 or January 12, 2000. The adoption of FIN 44 did not have a material effect on the financial position

BUSINESS

OVERVIEW

Vialta has developed a multi-featured DVD player that offers Internet access and other features that differentiate it from most DVD players currently available in the U.S. consumer market. This ViDVD player is the first product offering from Vialta's "Digital Home System" platform, which Vialta anticipates will grow to support a family of multimedia Internet appliances, as well as a complementary system for the delivery of home entertainment content.

The ViDVD is a multi-purpose home entertainment device that enables consumers to play DVD, CD, MP3, karaoke and other audio and video formats and to browse the Internet through their television. Vialta expects the ViDVD to be complemented by its ViMedia content delivery service, through which Vialta will distribute discs with movies, music, karaoke and other home entertainment content licensed by Vialta. Unlike standard CDs or DVDs currently on the market, these proprietary ViMedia discs can incorporate a variety of entertainment content on one disc. ViMedia discs can be played only on products supported by the Digital Home System platform.

The Digital Home System platform consists of Vialta's internally-developed operating system and related software. This platform allows users to access the Internet from their living room through an easy-to-use interface, and to play disc content in a variety of audio and video formats. The Digital Home System platform also includes a parental control feature for content contained on discs that include a rating system. In addition to its use in Vialta-branded products, Vialta anticipates that it will license its Digital Home System platform architecture to manufacturers of consumer electronics products and Internet appliances.

Vialta's goal is to make the ViDVD and other Digital Home System-supported products the centerpiece of consumers' home entertainment systems, combining Internet access with the features of several current consumer electronics devices into a single affordable product. Vialta intends to commence shipments of the ViDVD to the retail channel in August 2001.

2001 PLAN OF OPERATIONS

During the remainder of 2001, Vialta anticipates continuing with research and development of the Digital Home System platform, the ViDVD, the ViMedia content delivery service and future Digital Home Systems products. These efforts will include the development of communication frameworks, payment architecture, content delivery architecture and digital rights management, as well as new features and performance enhancements for the ViDVD. Vialta also intends to commence shipments of the ViDVD to the retail channel in August 2001. Vialta expects to continue its efforts to gain shelf space for the ViDVD in major consumer electronics store and mass merchant retailers. In addition, Vialta intends to pursue arrangements under which established original equipment manufacturers license the Digital Home System platform technology for the manufacture and distribution of ViDVDs.

PRODUCTS AND SERVICES

The ViDVD. The ViDVD is a multi-purpose DVD player designed to play a variety of rich media content and provide Internet access. The ViDVD plays video content in DVD and Vialta's proprietary ViMedia format, audio content in CD, MP3 and Vialta's proprietary ViAudio format, and also features a karaoke player. In addition to these features, the ViDVD offers Internet access via a built-in modem and user navigational control with its wireless keyboard and wireless remote control. The ViDVD features an easy-to-use interface that provides one-click access to each of its various functions, and includes a basic email application for use with a dial-up Internet connection. In addition, the ViDVD includes a parental control function that allows users to utilize the rating systems in place on certain discs to restrict the device's ability to play specific content.

Vialta expects that its unique combination of semiconductor components and the browser architecture built into Vialta's Digital Home System platform will make the consumer price of the ViDVD comparable to that of medium to higher-priced standard DVD players and less expensive than many other multi-featured DVD players.

ViMedia content delivery service. Both Vialta self-branded ViDVDs and ViDVDs produced by companies that license Vialta's Digital Home System platform are expected to be complemented by the ViMedia content delivery service, through which Vialta will distribute discs with movies, karaoke, documentaries, cooking and travel programs, cartoons and other home entertainment content. Vialta plans to include a single bundled ViMedia disc in its first shipment of ViDVDs, and plans to register purchasers for free shipments of a limited number of additional ViMedia discs. The ViMedia discs include content licensed by Vialta. Vialta will need to license or acquire additional content in order to provide new ViMedia discs, and is currently exploring new opportunities to license or acquire additional content.

Vialta anticipates that ViMedia discs with content-based themes will be distributed regularly to all registered ViDVD users, and that all content on these discs will be integrated into a comprehensive ViMedia index on a film-by-film or song-by-song basis. Over time, Vialta expects that ViMedia participants will develop a fully-indexed library of movies, karaoke songs, documentaries, cooking and travel programs, cartoons and other home entertainment content. The ViMedia interface enables users to quickly search all of the content on a disc by artist or title. In addition, ViMedia discs will include hyperlinks to web sites for access to content and online commerce opportunities with ViMedia advertisers.

The Digital Home System platform. Vialta's Digital Home System platform provides multimedia appliances, including the first Digital Home System product, the ViDVD, with an easy-to-use interface with a distinct look and feel. The first platform will be driven by ESS-produced semiconductor solutions. Vialta's proprietary architecture and related software will provide features that differentiate its products from standard DVD players and other similar offerings. Specifically, Vialta's Digital Home System platform enables users to browse the Internet via a wireless keyboard or remote control over a television-based interface.

Future products and services. Vialta anticipates that it will develop additional products compatible with the Digital Home System platform that may include a videophone, DVD burner and hard-disc digital recorder. Vialta also is currently developing the ability to support JPEG digital image files stored on a CD-ROM, allowing a consumer to view pictures taken with a digital camera on their television screen. In addition, Vialta anticipates that users may be able to update some of the features of their ViDVDs through software upgrades downloaded from the Internet.

SALES AND MARKETING

Vialta intends to sell to its end users primarily through distributors and both online and traditional retailers. It plans to leverage strategic relationships with manufacturers' representatives to gain shelf space for its Digital Home System products in national and regional consumer electronics retail stores, as well as in mass merchant retailers. Additionally, Vialta expects to market its products on television shopping channels and through its web site.

Vialta also intends to license its Digital Home System platform technology to other companies that want to manufacture and distribute ViDVDs. Vialta is currently negotiating an agreement with one original equipment manufacturer providing for this kind of license. Vialta hopes to enter into several more licensing arrangements, and is targeting established original equipment manufacturers that have access to significant retail channels and can more efficiently develop and manage the marketing of consumer electronics products. Vialta plans to work in conjunction with ESS to jointly target current customers of ESS semiconductor solutions.

Vialta does not plan to spend significant funds sponsoring a large-scale media advertising budget. This approach is largely driven by its desire to offer affordable Digital Home System products. Instead, Vialta intends to focus initially on promotional programs to educate sales associates at national consumer

electronics retailers about the benefits of Vialta's Digital Home System products. Vialta also plans to develop and deploy kiosks inside major retail outlets that will provide retail shoppers with a hands-on demonstration of its

Digital Home System products. In addition, Vialta anticipates entering into cooperative advertising arrangements with its retail partners and distributors, and providing product and platform support to those companies that have licensed Vialta's Digital Home System technology.

CUSTOMER SERVICE AND SUPPORT

Vialta believes that customer service and technical support are essential parts of the sales process in its markets. Vialta intends to work closely with its end-users both to improve customer satisfaction and develop future Digital Home System products and features to meet specific customer needs. Vialta anticipates that it will have call centers based in Toronto, Canada and Fremont, California that will answer user questions relating to its Digital Home System products and provide support for any future content delivery service offered in connection with the ViDVD.

PRODUCT DEVELOPMENT

Vialta's product development efforts are focused on the design and development of software and applications framework to enhance its Digital Home System offerings. Vialta believes that these efforts will allow it to introduce new and improved products in a timely manner at competitive prices.

Vialta's engineers are currently developing improvements to the operating system software that supports the Digital Home System platform. Vialta is also focusing efforts on developing communication frameworks, payment architecture, content delivery architecture, digital rights management, and new features and performance enhancements for the ViDVD. Vialta's engineers are also engaged in the development of new Digital Home Systems products as well as future generations of the ViDVD.

Vialta's research and development expenses were approximately \$1.4 million and \$19.6 million for the period from inception to December 31, 1999 and the year ended December 31, 2000, respectively, and \$4.5 million for the three months ended March 31, 2001.

In October 1999, Vialta entered into an agreement with EnReach Technology for the acquisition of EnReach's web site software. As part of this agreement, eight contract engineers were transferred from EnReach's Canadian office to Vialta as regular full-time employees. In December 1999, Vialta established a wholly-owned subsidiary, Vcom Canada Holdings, Inc., which operates as a research and development center for web site portal development.

In August 1999, Vialta entered into two research and development agreements with ESS, which specify the terms under which Vialta and ESS will provide each other with product development services. These agreements provide that Vialta will own any technology developed under these agreements with respect to its videophone and web browser businesses. The terms of the research and development agreements will be superceded by the master technology ownership and license agreement to be entered into by ESS and Vialta in connection with the distribution.

INTELLECTUAL PROPERTY

Intellectual property protection. Vialta relies on a combination of patent, trademark and copyright law, trade secret protection and confidentiality or license agreements with Vialta's employees, customers, partners and others to protect its proprietary rights. Vialta has filed two patent applications, one to cover ViDVD proprietary functions and digital encoder and decoder solutions and another to cover audio compression technology. In addition, Vialta has filed similar applications in Taiwan and with the patent cooperation treaty, which reserves the right to file in foreign countries. To date, none of the patents have been issued.

Vialta has filed trademark applications in the United States, Brazil, Canada, China, the European Union, Hong Kong, Japan, Singapore and Taiwan. The marks for which Vialta has filed applications include the Vialta logo, ViDVD, ViMedia, ViMag, ViMagazine, ViAudio and ViZip.

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Arrangements with ESS. In connection with the distribution, ESS and Vialta intend to enter into a master technology ownership and license agreement, pursuant to which ESS and Vialta will acknowledge the specific technology and trademarks related to Vialta's business that are owned by Vialta.

At the time of its formation, Vialta entered into several intellectual property agreements with ESS. It purchased from ESS all of ESS' proprietary rights and benefits conferred under the laws of the United States with respect to its videophone business and web browser business. Vialta also entered into two research and development agreements, under which Vialta and ESS provide each other with product development services. The master technology ownership and license agreement supercedes prior intellectual property and research and development agreements between ESS and Vialta. In addition, Vialta entered into a purchase agreement under which ESS agreed to provide Vialta with semiconductor products. See "Related Party Transactions -- Separation Agreements between ESS and Vialta" beginning on page 47.

MANUFACTURING

Vialta develops all of its products internally and outsources manufacturing. Vialta's self-branded ViDVDs are expected to be manufactured by multiple contract manufacturing vendors located in China. Vialta anticipates entering into manufacturing arrangements with these vendors which will provide Vialta with sufficient manufacturing capacity. Vialta's quality assurance engineers will be on-site at the manufacturing locations. Vialta plans to outsource import and export logistics, including clearance of Chinese and U.S. customs, ocean freight, warehousing and all shipments to retail distribution centers, individual retailers and individual customers purchasing ViDVDs online.

COMPETITION

Vialta will target the multimedia appliance and home entertainment markets with its ViDVD product, both of which are intensely competitive and rapidly evolving.

The ViDVD will compete directly with several other currently available or soon to be introduced multimedia appliance offerings from major consumer electronics manufacturers, such as Apex, Toshiba, Raite and Samsung, and with products developed by smaller companies, including the i2DVD, Neon, nReady and TVPC products. Like the ViDVD, nearly all of these products accommodate media in DVD, CD and MP3 format, many offer Internet access capabilities, and some include a karaoke feature.

In addition, as a home entertainment product, Vialta expects that the ViDVD will also compete with:

- standard DVD and CD players;
- the Sony PlayStation 2, the Microsoft Xbox and other web-enabled, multi-function game players;
- personal computers;
- WebTV and other television-based Internet appliances;
- Web-enabled wireless telephones and PDAs;
- video-on-demand services;
- karaoke machines; and
- video cassette recorders and laser disc players.

Most of these products are already widely available through retail distribution channels, and many of these products are already familiar to and accepted by consumers. Although these products lack the expanded functionality of the ViDVD and other competing multimedia appliances, most of the manufacturers and distributors of these competing home entertainment products have substantially greater brand recognition, market presence, distribution channels, advertising and marketing budgets and promotional and other strategic partners than Vialta.

EMPLOYEES

As of June 30, 2001, Vialta had 247 employees, including 120 in research and development, 39 in marketing, sales and support, 39 in manufacturing and operations and 49 in finance and administration.

FACILITIES

Vialta's corporate headquarters and one of its research and development centers are in a 78,000 square foot facility located in Fremont, California. Vialta leases this facility from ESS. Vialta has a research and development center in Hong Kong, where it leases 3,135 square feet of space under a lease that expires in July 2002. Vialta has 15,500 square feet of space in Toronto, Canada, under a lease that expires in September 2004. The facility in Canada is used to house Vialta's portal development center and call center for product and Internet service provider support. Vialta also uses 2,000 square feet of space in Honolulu to house some of its Internet service provider functions under an arrangement with an entity controlled by the spouse of Vialta's Chairman and Chief Executive Officer.

LEGAL PROCEEDINGS

Vialta is not currently engaged in any legal proceedings.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth information regarding Vialta's executive officers and directors as of June 30, 2001:

<TABLE>
<CAPTION>

NAME	AGE	TITLE
----	---	-----
<S>	<C>	<C>
Fred S.L. Chan.....	53	Chairman of the Board and Chief Executive Officer
Didier Pietri.....	38	President
Charles Root.....	49	Vice President - Marketing
Herbert Chang.....	38	Director
Matthew K. Fong.....	47	Director
Masahara Shinya.....	57	Director

</TABLE>

Fred S.L. Chan has been Vialta's Chairman of the Board and Chief Executive Officer since April 1999. Mr. Chan has been a director of ESS, Vialta's parent company, since January 1986, and has been Chairman of the Board of Directors of ESS since October 1992. Mr. Chan served as Chief Executive Officer of ESS from June 1994 to September 1999. Mr. Chan holds B.S.E.E. and M.S.C. degrees from the University of Hawaii.

Didier Pietri was appointed President of Vialta in April 2001. Prior to joining Vialta, Mr. Pietri served as President and Chief Executive Officer of TVA/Motion International, a global entertainment production and distribution company from August 1999 to March 2001. From June 1995 to July 1999, Mr. Pietri was Senior Vice President of the ABC Television Network Group, as well as President of ABC Pictures, a division of The Walt Disney Company.

Charles Root has been Vialta's Vice President - Marketing since May 2000. From August 1999 until March 2000, he was Vice President - Marketing for Provview Technologies, a retail products manufacturer. From May 1998 to July 1999, Mr. Root was a self-employed executive planning consultant. He served as Vice President and General Manager for Hyundai Electronics America from December 1995 to April 1998.

Herbert Chang has been a member of Vialta's board of directors since November 1999. Mr. Chang is the President of InveStar Capital, Inc., a venture capital firm. He has held that position since August 1996. Mr. Chang holds a B.S. in Geology from National Taiwan University and a Masters in Business Administration from National Chiao-Tung University.

Matthew K. Fong has been a member of Vialta's board of directors since April 1999. Mr. Fong serves as Vice Chairman of the Board of ESS. Since February

1999, Mr. Fong has been an attorney with the law firm of Sheppard, Mullin, Richter & Hampton, LLP and the Chief Executive Officer of Strategic Advisory Group, a financial and high technology consulting group that he founded. Prior to that, Mr. Fong served as California State Treasurer from January 1995 to January 1999. He has also led global investment missions as the Chief Financial Officer for California and served on the National Economic Growth and Taxation Committee in Washington, D.C. Mr. Fong was Vice Chairman of the State Board of Equalization from 1991 to 1994.

Masahara Shinya has been a member of Vialta's board of directors since April 1999. Mr. Shinya is the Chairman and CEO of Global Alliance Inc., a technology consulting firm that he founded in March 1999. Since April 1999, he has served as the Chairman and Chief Executive Officer of Universe Electron Corporation, a company that distributes semiconductor products. From September 1990 to March 1999, Mr. Shinya was the President of another distributor of semiconductor products, Kanematsu Semiconductor Corporation. Mr. Shinya currently serves as a director of three other companies, including Impala Linear Corporation, Capella Microsystems, Inc., and Altigen Communications, Inc.

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BOARD COMPOSITION

Vialta's board of directors currently consists of four members serving in three classes with staggered terms. Messrs. _____ and _____ initial terms will expire in 2002. Mr. _____ initial term will expire in 2003. Mr. _____ initial term will expire in 2004. Thereafter, Vialta's directors will be elected to three-year terms. The classification of Vialta's board of directors may delay or prevent a change of control of Vialta or in its management. See "Description of Capital Stock -- Anti-Takeover Effects of Vialta's Certificate, Bylaws and Delaware Law."

BOARD COMMITTEES

The audit committee of Vialta's board of directors recommends the appointment of Vialta's independent auditors, reviews its internal accounting procedures and financial statements and consults with and reviews the services provided by its independent auditors, including the results and scope of their audit. The audit committee currently consists of Messrs. Shinya and Fong.

The compensation committee of the board of directors reviews and approves compensation and benefits for Vialta's executive officers, administers the stock option plans and makes recommendations to the board of directors regarding such matters. The compensation committee currently consists of Messrs. Shinya and Fong.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the members of Vialta's compensation committee has at any time been one of its officers or employees. None of Vialta's executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on its board of directors or compensation committee. Prior to the creation of Vialta's compensation committee, all compensation decisions were made by its full board.

COMPENSATION OF DIRECTORS

Vialta's directors do not receive cash compensation for their services as directors or members of committees of the board, but are reimbursed for reasonable expenses incurred in attending meetings of the board of directors and of committees of the board of directors. Vialta's non-employee directors are eligible to receive grants of options to purchase shares of Vialta common stock under Vialta's 2000 directors stock option plan. Pursuant to the directors stock option plan, in June 2000, Mr. Chang and Mr. Shinya were each granted an option to purchase 32,000 shares of common stock at an exercise price of \$2.01 per share in connection with their service on Vialta's board of directors. In connection with the recapitalization, these options became exercisable for the same number of shares of Class A common stock. The options vest as to one-fourth of the shares on each of the first four anniversaries of the grant date. Under the directors stock option plan, established to provide incentives for non-employee directors, each new non-employee member of the board of directors receives an initial option grant of 32,000 shares of Class A common stock. So long as the director continues to serve on Vialta's board of directors, on each anniversary of this initial grant, he or she will receive an additional option grant of 8,000 shares of Class A common stock.

Directors who are also employees are eligible to receive options and be issued shares of Vialta common stock under Vialta's 1999 stock incentive plan.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table presents information regarding compensation paid or earned by Vialta's Chief Executive Officer. Vialta had no other executive officers whose total salary and bonus for the year ended December 31, 2000 exceeded \$100,000.

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION		LONG-TERM AND OTHER COMPENSATION AWARDS	
	SALARY	BONUS	NUMBER OF SECURITIES UNDERLYING OPTIONS	ALL OTHER COMPENSATION (1)
<S> Fred S.L. Chan..... Chairman and Chief Executive Officer	<C> \$248,000	<C> \$--	<C> --	<C> \$462

</TABLE>

(1) Represents dollar value of premiums paid by Vialta under Vialta's group term life insurance policy and accidental death and dismemberment policy on behalf of the named executive officer.

OPTION GRANTS IN LAST FISCAL YEAR

Vialta did not grant any stock options to the executive officer named in the Summary Compensation Table above during the year ended December 31, 2000.

During 2000, Vialta granted options to purchase an aggregate of 903,200 shares of its common stock to employees, directors and consultants, which became options to purchase the same number of shares of Class A common stock in connection with the recapitalization. All options were granted under Vialta's 1999 stock incentive plan at exercise prices equal to the fair market value of Vialta's common stock on the date of grant, as determined by the board of directors, taking into account the purchase price paid by investors for shares of Vialta's preferred stock, the liquidation preferences and other rights, privileges and preferences associated with the preferred stock and an evaluation by the board of directors of Vialta's revenues, operating history and prospects.

AGGREGATE OPTION EXERCISES AND YEAR-END HOLDINGS

The following table presents the number of shares of Class A common stock subject to exercisable and unexercisable options held as of December 31, 2000 by the executive officer named in the Summary Compensation Table above. Value at the year ended December 31, 2000 is measured as the difference between the exercise price and the deemed fair value of the underlying securities on December 31, 2000. The value of unexercised options set forth below is calculated based on the deemed fair value of the underlying securities on December 31, 2000 of \$1.68 per share minus the exercise price. The value realized upon exercise is based on the deemed fair value of the underlying securities on the date of exercise, minus the per share exercise price, multiplied by the number of shares acquired upon exercise.

<TABLE>
<CAPTION>

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 2000		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 2000	
			VESTED	UNVESTED	VESTED	UNVESTED
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Fred S.L. Chan.....	--	\$--	--	1,000,000	\$--	\$1,405,000

</TABLE>

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE OF CONTROL ARRANGEMENTS

In October 1999, Vialta granted an option to Fred S.L. Chan, its Chairman and Chief Executive Officer, to purchase 1,000,000 shares of Vialta common stock at an exercise price of \$0.275 per share. In connection with this recapitalization, these options became exercisable for the same number of shares of Class A common stock. The vesting of the option accelerates and shall become exercisable in full upon an acquisition of Vialta, completion of an initial public offering with a valuation of more than \$1 billion prior to December 31, 2001, or at the end of a five-year vesting schedule.

STOCK PLANS

1999 STOCK INCENTIVE PLAN

The Vialta 1999 stock incentive plan was adopted by the board of directors and approved by Vialta's stockholders in August 1999. A total of 10,000,000 shares of Class A common stock are authorized and reserved for issuance under the stock incentive plan. As of June 30, 2001, options to purchase 2,793,300 shares of common stock were outstanding under the stock incentive plan, 21,250 shares had been issued upon exercise of options and 7,185,450 shares were available for future grant. In connection with the recapitalization, all options outstanding under the plan became exercisable for the same number of shares of Class A common stock, and the 21,250 shares of common stock that had been issued upon exercise of options were exchanged for 23,375 shares of Class B common stock. All future options granted under the plan will be exercisable for shares of Class A common stock. If any award granted under the stock incentive plan expires or terminates or if Vialta reacquires any shares issued pursuant to an award, the shares subject to the terminated portion and any reacquired shares will again become available for issuance under the plan.

The stock incentive plan is administered by the board of directors or by a committee of the board, which determines, consistent with the provisions of the plan, the persons to whom awards are granted and all of the terms and conditions of awards. The administrator has the authority to construe and interpret the terms of the plan and awards granted under it and to amend or terminate the plan, subject to stockholder approval of any amendment increasing the maximum number of shares issuable under the plan or as otherwise required by law. Generally, no amendment or termination may adversely affect any outstanding award without the consent of the affected participant. Unless terminated sooner by the board of directors, the stock incentive plan will terminate automatically in 2009 on the tenth anniversary of its adoption by the board.

The stock incentive plan authorizes the administrator to grant awards in the form of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code of 1986, nonstatutory stock options, restricted stock, stock units and stock appreciation rights. Awards may be granted to employees (including officers), consultants and non-employee directors, except that incentive stock options may be granted only to employees, including officers.

The per-share exercise price of incentive stock options granted under the stock incentive plan must be at least equal to the fair market value of a share of Vialta Class A common stock on the date of grant, while the exercise price per share of nonstatutory stock options must be at least 85% of such fair market

value. However, the exercise price per share of any option granted to any participant who owns stock possessing more than 10% of the voting power of all classes of Vialta's outstanding capital stock or that of any parent or subsidiary corporation must equal at least 110% of the fair market value of a share of Class A common stock on the grant date, and the term, if such option is also an incentive stock option, must not exceed five years. The terms of all other options granted under the stock incentive plan may not exceed ten years. The aggregate fair market value (determined as of the date of grant) of Vialta Class A common stock for which incentive stock options may become exercisable for the first time by any optionee may not exceed \$100,000 in any calendar year. The administrator generally has the discretion to determine the vesting provisions and exercise requirements, if any, of all options granted under the plan. Unless longer periods are authorized by the administrator, options granted under the stock incentive plan generally

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must be exercised, if at all, within six months after an optionee's termination of service due to death or disability and otherwise within 30 days after an optionee's termination of service, but in no event later than the expiration of the option's term. Options granted under the plan generally are not transferable by an optionee other than by will or the laws of descent and distribution.

Awards of restricted stock bonuses may be made under the stock incentive plan in consideration of services rendered to Vialta. Awards of restricted stock may be made subject to vesting restrictions and other conditions as established by the administrator and are not transferable by the participant until vested. Vesting may be based on the participant's continued service with Vialta or the attainment of one or more performance goals established by the administrator. While the participant will have voting rights and the right to receive dividends or other distributions paid with respect to the restricted stock, the administrator may require the participant to invest any cash dividends in additional restricted stock subject to the same vesting restrictions as the original award. Unless otherwise provided by the administrator, if a participant's service with Vialta terminates for any reason, the participant will forfeit any then unvested shares acquired as a restricted stock bonus.

The administrator may grant stock units under the stock incentive plan that vest in installments or upon the attainment of such performance goals measured over such periods as the administrator determines. A stock unit is an unfounded bookkeeping entry generally having an initial value equal to the fair market value of one share of Vialta Class A common stock. To the extent earned, stock unit awards may be settled in cash, shares of Vialta Class A common stock or any combination of these. Payments may be made in lump sum or on a deferred basis. If payments are to be made on a deferred basis, the administrator may provide for the payment of dividend equivalents or interest during the deferral period. Except as otherwise provided by the plan, if a participant's service terminates for any reason, the participant's stock units are forfeited. Prior to their payment, stock unit awards are not transferable by a participant other than by will or the laws of descent and distribution.

The administrator may also grant stock appreciation rights ("SARs") under the stock incentive plan. The administrator will specify an exercise price per share for a SAR as well as the vesting schedule for the SAR. The optionee may exercise a vested SAR and receive the excess of the fair market value of a share of Vialta common stock on the exercise date over the SAR exercise price. The SAR payment may be settled in cash, shares of Vialta common stock or any combination of these. A vested SAR will automatically be exercised on its date of expiration if the fair market value of a share of Vialta common stock on such date exceeds the exercise price.

In the event of the merger of Vialta with another corporation or another change in control event, the acquiring corporation may assume outstanding awards or substitute new awards of equivalent value. The stock incentive plan authorizes the administrator to provide for the acceleration of vesting and exercisability of stock options and other awards to such extent and upon such terms as the administrator determines in the event of a change in control.

2000 DIRECTORS STOCK OPTION PLAN

The Vialta 2000 directors stock option plan was adopted by the board of directors in February 2000 and approved by Vialta's stockholders in February 2001. A total of 300,000 shares of Vialta Class A common stock are authorized and reserved for issuance under the directors stock option plan. As of June 30, 2001, options to purchase 64,000 shares of common stock were outstanding under the directors stock option plan and 236,000 shares were available for future grant. In connection with the recapitalization, these options became exercisable for the same number of shares of Class A common stock. All future options granted under the plan will be exercisable for shares of Class A common stock. If any option granted under the directors stock option plan expires or

terminates, the shares subject to the terminated portion will again become available for issuance under the plan.

Only directors who are not Vialta employees or employees of ESS or any other affiliate are eligible to receive grants under the directors stock option plan. The plan provides that each new eligible member of the board of directors shall receive an initial option grant of 32,000 shares of Class A common stock. So

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long as the director continues to serve on the Vialta board, on each anniversary of the initial grant, the director will receive an additional option grant of 8,000 shares. All options vest as to one-fourth of the shares on each of the first four anniversaries of the grant date. All options granted under the directors stock option plan will have an exercise price equal to the fair market value on the date of grant. The plan also provides that the vesting of all options granted thereunder will accelerate upon a change of control of Vialta, and such options will become exercisable in full.

The directors stock option plan is administered by Vialta's board of directors or by a committee of the board. The administrator has the authority to construe and interpret the terms of the plan and awards granted under it and to amend or terminate the plan, subject to stockholder approval of any amendment increasing the maximum number of shares issuable under the plan or as otherwise required by law. Generally, no amendment or termination may adversely affect any outstanding award without the consent of the affected participant. Unless terminated sooner by the board of directors, the directors stock option plan will terminate automatically in 2010 on the tenth anniversary of its adoption by the board.

2001 NONSTATUTORY STOCK OPTION PLAN

The Vialta 2001 nonstatutory stock option plan was adopted by the board of directors in July 2001. Immediately prior to the distribution, ESS will transfer to Vialta approximately 8,939,219 shares of Vialta Class A common stock. This same number of shares of Vialta Class A common stock has been authorized and reserved for issuance under the nonstatutory stock option plan. Effective immediately prior to the distribution, Vialta will grant options to all ESS employees, consultants and outside directors with outstanding ESS options. As a result, as of the date of the distribution, all of the approximately 8,939,219 shares authorized under the plan will be subject to outstanding options. Each Vialta option will cover a number of shares of Vialta common stock equal to:

- the number of shares of ESS common stock subject to the option (as if such option was fully vested), multiplied by
- the distribution ratio that determines the number of shares of Vialta common stock to be distributed for each share of ESS common stock.

None of these Vialta options will permit the purchase of fractional shares of Vialta common stock. Each Vialta option will be exercised at the same time (and to the same extent) as an exercise of the corresponding ESS option. At the time of exercise, the exercise price of the corresponding ESS option will be paid to ESS and the optionee will receive the number of ESS shares being purchased plus a number of Vialta shares based on the distribution ratio. The resulting Vialta options will vest, be exercisable, expire and otherwise essentially mirror the provisions of the corresponding ESS option held by the ESS employee. If any option granted under the nonstatutory stock option plan expires or terminates, the shares subject to the terminated portion will no longer be available for issuance under the plan.

2001 EMPLOYEE STOCK PURCHASE PLAN

Vialta's 2001 employee stock purchase plan was adopted by the board of directors and approved by the stockholders in July 2001. Pursuant to the terms of the plan, no shares of Vialta stock will be issued under the plan until Vialta's board of directors authorizes the first offering period under the plan. Vialta does not anticipate that any shares of its stock will be issued under the plan until an initial public offering of Vialta's stock has occurred. A total of 1,000,000 shares of Vialta Class A common stock are authorized and reserved for issuance under the plan, cumulatively increased on January 1, 2002 and each January 1 thereafter through January 1, 2011 by an amount equal to the lesser of (a) 1% of the outstanding shares of Vialta common stock on the immediately

preceding December 31 or (b) 100,000 shares, or such lesser amount as may be determined by the board of directors. Appropriate adjustments will be made to these limits and to purchase rights outstanding under the plan in the event of any change in Vialta's capital structure. If any purchase right granted under the employee stock purchase plan expires or terminates, the shares subject to the unexercised portion will again become available for issuance under the plan.

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The employee stock purchase plan is intended to qualify under Section 423 of the Internal Revenue Code. It will be administered by Vialta's board of directors or by a committee of the board, who have the authority to interpret and apply its provisions. The plan will generally be implemented through consecutive six-month offering periods.

Employees, including officers and employee directors, are eligible to participate in the employee stock purchase plan if they are customarily employed by Vialta or any participating subsidiary for more than 20 hours per week and more than five months in any calendar year. However, any employee who immediately after receiving the grant of a purchase right would own or hold options to purchase stock possessing 5% or more of the total combined voting power or value of all classes of Vialta's capital stock may not be granted a purchase right under the plan. Furthermore, no employee may accrue rights to purchase shares under the plan at a rate which exceeds \$25,000 worth of stock, measured at the beginning of the offering period, for each calendar year in which the purchase right is outstanding at any time. Purchase rights granted under the employee stock purchase plan are not transferable by a participant other than by will or the laws of descent and distribution.

The plan permits participants to purchase common stock through payroll deductions of up to 10% of the participant's base salary and commissions. Such amounts are applied to the purchase of shares of Vialta's common stock at the end of each offering period at a price which is generally 85% of the lower of the fair market value of its Class A common stock on either the first day of the offering period or the last day of the offering period. The maximum number of shares a participant may purchase in any six-month offering period is equal to the lesser of (i) \$12,500 divided by the stock price on the first day of the offering, or (ii) 500 shares. In addition, no participant may purchase stock during any calendar year having a value, based on the market price on the first day of the offering period, in excess of \$25,000. Participants may voluntarily end their participation at any time during an offering period, and participation ends automatically upon termination of employment.

The plan provides that, in the event of Vialta's merger with another corporation or another change in control event, each outstanding purchase right may be assumed by the acquiring corporation. If the acquiring corporation refuses to assume the outstanding purchase rights, the offering period then in progress will be shortened and a new purchase date will be set prior to the change in control. The employee stock purchase plan will terminate when all of the authorized shares have been issued, unless terminated earlier by Vialta's board of directors. The board of directors has the authority to amend or terminate the plan, subject to stockholder approval of any amendment increasing the maximum number of shares issuable under the plan or as otherwise required by law. Generally, no amendment or termination of the plan may adversely affect any outstanding purchase right without the consent of the affected participant.

401(k) PLAN

Vialta intends to adopt, prior to the distribution, a tax-qualified defined contribution plan under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended. Under the terms of the 401(k) plan, eligible employees may elect to contribute a portion of their compensation as salary deferral contributions to the 401(k) plan, subject to certain statutorily prescribed limits. The 401(k) plan also permits, but does not require, Vialta to make discretionary matching contributions and discretionary profit-sharing contributions. As a tax-qualified plan, contributions to the 401(k) plan are generally deductible by Vialta when made, and are not taxable to participants until distributed from the 401(k) plan. Under the 401(k) plan, participants may direct the trustees to invest their accounts in selected investment options.

LIMITATION OF LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS

Vialta's amended and restated certificate of incorporation limits the

provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except for liability:

- for any breach of their duty of loyalty to Vialta or its stockholders;
- for acts or omissions that are not in good faith or that involve intentional misconduct or that are known to be illegal;
- for unlawful payments of dividends or unlawful stock repurchases, redemptions or other distributions; or
- for any transaction from which the director derived an improper personal benefit.

Vialta's amended and restated certificate of incorporation and amended and restated bylaws require it to indemnify Vialta's officers, directors and other agents to the full extent permitted by Delaware law. Vialta has entered into indemnification agreements with each of its directors and officers that are, in some cases, broader than the specific indemnification provisions permitted by Delaware law. The indemnification agreements require Vialta, among other things, to:

- indemnify officers and directors against certain liabilities that may arise because of their status as officers or directors; and
- advance expenses they spend as a result of any proceeding against them, subject to limited exceptions.

Vialta's amended and restated bylaws permit it to purchase insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity, regardless of whether Delaware law would permit indemnification, and to provide indemnification in circumstances in which indemnification is otherwise discretionary under Delaware law. Vialta also intends to obtain a rider to extend coverage for public securities matters.

At present, there is no pending litigation or proceeding involving any of Vialta's directors, officers or employees in which indemnification is sought, nor is Vialta aware of any threatened litigation that may result in claims for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for directors, executive officers or persons controlling Vialta, Vialta has been informed that in the opinion of the Securities and Exchange Commission, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

RELATED PARTY TRANSACTIONS

SEPARATION AGREEMENTS BETWEEN ESS AND VIALTA

For your convenience, the following is a summary of the material terms of the key agreements that govern the distribution and the resulting separation of Vialta from ESS. ESS and Vialta anticipate that they will enter into these agreements shortly before the distribution. The following description summarizes the material terms of the separation agreements, but does not purport to describe all the terms of these agreements. You are urged to read the agreements in their entirety.

MASTER DISTRIBUTION AGREEMENT

The master distribution agreement outlines the general terms and conditions of the distribution and the general agreement of the parties as to how these matters will be undertaken and completed.

The Distribution. The distribution is scheduled to occur on or around August 10, 2001. Prior to the distribution date, Vialta will enter into agreements with ESS that govern the various relationships between ESS and Vialta following the distribution date. These ancillary agreements include:

- a master technology ownership and license agreement;
- an employee matters agreement;
- a tax sharing and indemnity agreement;
- a real estate matters agreement;
- a master confidential disclosure agreement; and
- a master transitional services agreement.

Except as to indemnification obligations among the parties, to the extent that a term of any of the ancillary agreements described below contradicts the master distribution agreement, the term of the ancillary agreement will govern.

Covenants. Vialta agrees to exchange information, engage in specific auditing practices and resolve disputes in particular ways.

Information Exchange. Vialta agrees to maintain and share information with ESS such that ESS and Vialta may each:

- maintain adequate internal accounting to allow the other to satisfy reporting obligations and prepare financial statements;
- retain records that may be beneficial to the other for a specified period of time and allow that if the records are scheduled to be destroyed, the destroying party will give the other party an opportunity to retrieve all relevant information from the records; and
- provide the other with personnel, directors, officers or agents that may be used as witnesses in legal proceedings.

Auditors and Audits. So long as ESS is required to consolidate Vialta's operating results and financial position, Vialta agrees to:

- employ only a nationally recognized accounting firm;
- provide ESS all relevant information to enable ESS to prepare its financial statements;
- grant ESS' internal auditors access to its records; and
- notify ESS of any change in its accounting principles.

ESS agrees to provide Vialta with all relevant information to enable Vialta to prepare Vialta's financial statements and to grant Vialta's auditors access to ESS' records.

Insurance Matters. In General, Vialta will be responsible for obtaining and maintaining its own insurance programs after the distribution date.

Conditions. The master distribution agreement provides that consummation of the distribution is subject to conditions precedent, including:

- receipt of all required regulatory approvals;
- the registration statement becoming effective under the Securities and Exchange Act of 1934;
- trades of the common stock of Vialta having been permitted to be reported on the OTC Bulletin Board;
- the master distribution agreement not having been terminated; and
- no legal restraint or prohibition preventing the consummation of the distribution shall be in effect.

Dispute Resolution. Vialta agrees with ESS to the following procedures to settle any disputes under the master distribution agreement and the ancillary agreements:

- unless the dispute relates to confidentiality or intellectual property claims or if a delay would cause serious and irreparable damage, Vialta and ESS will each make a good faith effort to first resolve the dispute through informal negotiation;
- then, through a meeting of senior executives from each company; and
- if these efforts fail, the dispute may then be litigated.

Termination. The master distribution agreement and all ancillary agreements may be terminated and the distribution abandoned at any time prior to the distribution date in the sole discretion of ESS without the approval of Vialta.

MASTER TECHNOLOGY OWNERSHIP AND LICENSE AGREEMENT

The master technology ownership and license agreement allocates ownership rights generally along the lines of the products of each of ESS and Vialta. In the master technology ownership and license agreement, ESS acknowledges Vialta's exclusive ownership of specific technology and trademarks related to Vialta's products. Vialta will have unrestricted rights to use the assigned technology and related trademarks that Vialta alone owns. The master technology ownership and license agreement will not obligate either Vialta or ESS to provide the other improvements that it makes to its own technology.

The master technology ownership and license agreement supercedes prior intellectual property and research and development agreements between ESS and Vialta.

EMPLOYEE MATTERS AGREEMENT

The employee matters agreement allocates responsibilities relating to current and former employees of Vialta and their participation in any benefits

plans that ESS currently sponsors and maintains.

Benefit Plans. All eligible Vialta employees will continue to participate in the ESS benefit plans on comparable terms to those for ESS employees until the distribution date. Vialta intends to establish its own benefits plans for its employees that will become effective on or shortly after the distribution date. These plans may be, but are not required to be, comparable to the plans offered by ESS. Vialta has the discretion to determine the types of benefits plans that will be implemented as well as the level of benefits that will be offered under its plans.

Options. The Vialta 2001 nonstatutory stock option plan was adopted by the board of directors in July 2001. Prior to the distribution, ESS will transfer to Vialta approximately 8,939,219 shares of Vialta

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Class A common stock. This same number of shares of Vialta Class A common stock has been authorized and reserved for issuance under the nonstatutory stock option plan. Effective immediately prior to the distribution, Vialta will grant options to all ESS employees with ESS options, based on options outstanding as of the record date. As a result, as of the date of the distribution, all of the approximately 8,939,219 shares authorized under the plan will be subject outstanding options. Each Vialta option will cover a number of shares of Vialta Class A common stock equal to:

- the number of shares of ESS common stock subject to the option (as if such option was fully vested), multiplied by
- the distribution ratio that determines the number of shares of Vialta Class A common stock to be distributed for each share of ESS common stock.

None of these Vialta options will permit the purchase of fractional shares of Vialta Class A common stock. The resulting Vialta options will vest, be exercisable, expire and otherwise essentially mirror the provisions of the corresponding ESS option held by the ESS employee. If any option granted under the nonstatutory stock option plan expires or terminates, the shares subject to the terminated portion will no longer be available for issuance under the plan.

Stock Purchase Plan. Vialta employees will continue to be eligible to participate in the ESS employee stock purchase plan through the distribution date. Vialta currently has a stock option plan for employees and non-employee directors.

TAX SHARING AND INDEMNITY AGREEMENT

The tax sharing and indemnity agreement allocates responsibilities for tax matters between ESS and Vialta. Vialta will indemnify ESS in the event the distribution initially qualifies for tax-free treatment and later becomes disqualified as a result of actions taken by Vialta or within Vialta's control. The tax sharing and indemnity agreement also assigns responsibilities for administrative matters such as the filing of returns, payment of taxes due, retention of records and conduct of audits, examinations and similar proceedings.

REAL ESTATE MATTERS AGREEMENT

The real estate matters agreement addresses real estate matters relating to property owned by ESS that ESS will lease to Vialta, as well as other properties currently leased by Vialta. The terms of the lease from ESS to Vialta for the Fremont facility that serves as Vialta's corporate headquarters are amended and restated in an exhibit to the real estate matters agreement.

MASTER CONFIDENTIAL DISCLOSURE AGREEMENT

The master confidential disclosure agreement provides that Vialta and ESS agree not to disclose confidential information of the other except in specific circumstances. Vialta and ESS agree not to use confidential information of the other except as may be permitted in an ancillary agreement.

MASTER TRANSITIONAL SERVICES AGREEMENT

The master transitional services agreement, or services agreement, governs corporate support services that ESS agrees to provide to Vialta, including, without limitation, information technology systems, human resources administration, product order administration, customer service, buildings and facilities and finance and accounting services, each as specified and on the terms set forth in the services agreement and in the schedules to the services agreement. The services agreement also will provide for the provision of additional services identified from time to time after the distribution date that Vialta reasonably believes were inadvertently or unintentionally omitted from the specified services, or that are essential to effectuate an orderly transition under the master distribution agreement, so long as the provision of such services would not significantly disrupt ESS' operations or significantly increase the scope of ESS' obligations under the agreement.

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OTHER ARRANGEMENTS BETWEEN ESS AND VIALTA

Inter-company Technology Transfers. At the time of Vialta's formation, it entered into several intellectual property agreements with ESS. Vialta purchased from ESS all of the proprietary rights and benefits conferred under the laws of the United States with respect to Vialta's videophone business and web browser business. It also entered into two research and development agreements, under which Vialta and ESS have provided each other with product development services. These research and development agreements provide that technology developed under the agreements with respect to videophone, Internet phone and web browser products will be owned by Vialta and that technology developed under the agreements with respect to semiconductor solutions will be owned by ESS. The master technology ownership and license agreement supercedes the prior intellectual property and research and development agreements between ESS and Vialta.

Service Agreement. At the time of Vialta's formation, it entered into an administrative and management service agreement with ESS, pursuant to which ESS agreed to provide specific administrative and managerial services, including but not limited to general and administrative, sales support, marketing support, office space, production and logistical support, financial oversight, accounting assistance, contract review, personnel services and such other general and administrative services as Vialta requires. In 2000 and 1999, ESS performed these services for a service fee of \$3.4 million and \$302,000, respectively.

Purchase Agreement. At the time of Vialta's formation, it entered into a purchase agreement with ESS, under which the parties agreed that ESS would provide Vialta with specific semiconductor products. Vialta purchased products from ESS under this agreement in the amount of \$1.0 million in 2000.

Preferred Stock Sales. In September 1999, Vialta sold 40,000,000 shares of its Series A preferred stock to ESS at a price of \$0.25 per share to raise capital to finance its operations. In December 1999, Vialta sold 20,000,000 shares of its Series B preferred stock to ESS at a purchase price of \$2.60 per share to raise additional capital to finance its operations.

PREFERRED STOCK SALES TO 5% STOCKHOLDERS

Between December 1999 and March 2000, Vialta sold 51,000,000 shares of its Series B preferred stock at a price of \$2.60 per share to raise capital to finance its operations. The following 5% stockholders, other than ESS, purchased shares in the financing:

<TABLE>
<CAPTION>

PURCHASER -----	NUMBER OF COMMON EQUIVALENT SHARES -----	AGGREGATE CONSIDERATION -----
<S>	<C>	<C>
Evershine XVI L.P.	8,000,000	\$20,800,000
Hsun Chieh Investment Corporation Limited.....	7,600,000	19,760,000
United Microelectronics Corp.	7,600,000	19,760,000

The shares purchased by Evershine XVI L.P., an entity controlled by a trust for the benefit of the children of Fred S.L. Chan and Annie M.H. Chan, were paid for by issuance to Vialta of a full recourse promissory note, which bore interest at the market rate. The principal and accrued interest on this note were paid in full in March 2000.

COMMON STOCK SALES

In October 1999, Vialta sold 4,000,000 shares of its common stock to Fred S.L. Chan, Vialta's Chairman and Chief Executive Officer, at a purchase price of \$0.25 per share. Mr. Chan paid for these shares by issuing a full recourse promissory note to Vialta, which bore interest at the market rate. The principal and accrued interest on this note were paid in full in March 2000.

OPTION GRANTS TO EXECUTIVE OFFICER

In June 2000, Vialta granted to Charles Root, Vice President -- Marketing, an option to purchase 80,000 shares of Vialta common stock at an exercise price of \$2.01 per share.

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INDEMNIFICATION AGREEMENTS

Vialta's amended and restated certificate of incorporation and amended and restated bylaws require it to indemnify its officers, directors and other agents to the full extent permitted by Delaware law. In addition, Vialta has entered into indemnification agreements with each of its directors and officers that are, in some cases, broader than the specific indemnification provisions permitted by Delaware law. See "Management -- Limitation of Liability and Indemnification of Officers and Directors."

OTHER TRANSACTIONS

In December 2000, an entity controlled by Annie M.H. Chan, a director of ESS and the spouse of Fred S.L. Chan, Vialta's Chairman and Chief Executive Officer, loaned Vialta \$30 million. The principal amount of this loan together with accrued interest in the amount of \$194,000 was repaid by Vialta in January 2001.

For information regarding agreements between Vialta and one of its executive officers, please see "Management -- Employment Contracts, Termination of Employment and Change of Control Agreements."

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PRINCIPAL STOCKHOLDERS

The following table sets forth information known to Vialta regarding the beneficial ownership of its common stock as of June 30, 2001 and as adjusted to reflect the distribution of common stock described in this information statement by the following:

- each stockholder who is known by Vialta to beneficially own more than 5% of its common stock;
- the executive officer named on the summary compensation table under "Management;"
- each of Vialta's directors; and
- all of Vialta's executive officers and directors as a group.

The address for individuals for whom an address is not otherwise indicated is 48461 Fremont Boulevard, Fremont, California 94538.

The number of shares beneficially owned and the percent of shares outstanding after the recapitalization and distribution are based on an aggregate of 91,986,312 shares outstanding as of June 30, 2001, after giving effect to the recapitalization and distribution. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. All shares of common stock subject to options exercisable within 60 days following June 30, 2001 are deemed to be outstanding and beneficially owned by the person holding those options for the purpose of computing the number of shares beneficially owned and the percent of ownership of that person. They are not, however, deemed to be outstanding and beneficially owned for the purpose of computing the percent ownership of any other person. Except as indicated in the other footnotes to the table and subject to applicable community property laws, based on information provided by the persons named in the table, these persons have sole voting and investment power with respect to all shares of the common stock shown as beneficially owned by them.

<TABLE>
<CAPTION>

BENEFICIAL OWNER	CLASS OF COMMON STOCK	NUMBER OF SHARES PRIOR TO DISTRIBUTION	PERCENTAGE OF SHARES OUTSTANDING PRIOR TO DISTRIBUTION	NUMBER OF SHARES AFTER DISTRIBUTION	PERCENTAGE OF SHARES OUTSTANDING AFTER DISTRIBUTION
<S>	<C>	<C>	<C>	<C>	<C>
5% STOCKHOLDERS:					
ESS Technology, Inc. 48401 Fremont Boulevard Fremont, California 94538	Class A	60,400,100	65.7%	--	*
Evershine XVI L.P. 10011 N. Foothill Blvd., Suite 107 Cupertino, CA 95014	Class B	8,800,000	9.6%	8,800,000	9.6%
United Microelectronics Corp. (1)..... 3F, No. 76, Sec. 2 Tun-Hwa S. Rd. Taipei, Taiwan, R.O.C.	Class B	20,900,000	22.7%	20,900,000	22.7%

</TABLE>

<TABLE>
<CAPTION>

BENEFICIAL OWNER	CLASS OF COMMON STOCK	NUMBER OF SHARES PRIOR TO DISTRIBUTION	PERCENTAGE OF SHARES OUTSTANDING PRIOR TO DISTRIBUTION	NUMBER OF SHARES AFTER DISTRIBUTION	PERCENTAGE OF SHARES OUTSTANDING AFTER DISTRIBUTION
------------------	-----------------------	--	--	-------------------------------------	---

<S>	<C>	<C>	<C>	<C>	<C>
EXECUTIVE OFFICERS AND DIRECTORS:					
Fred S.L. Chan.....	Class A	73,600,100(2)	80.0%	31,779,768(3)	34.5%
	Class B				
Herbert Chang.....	--	--	*	--	*
Matthew K. Fong.....	Class A	--	*	13,844(4)	*
Masahara Shinya.....	--	--	*	--	*
All executive officers and directors as a group (11 persons).....	Class A	73,600,100	80.0%	31,793,612(5)	34.6%
	Class B				

</TABLE>

 * Represents beneficial ownership of less than 1% of outstanding shares of common stock.

- (1) Includes 8,360,000 shares held by Hsun Chien Investment Corp. and 4,180,000 shares held by Fortune Venture Capital Corp., both of which are entities affiliated with United Microelectronics Corp.
- (2) Includes 60,400,100 shares of Class A common stock held by ESS, of which Mr. Chan serves as Chairman of the Board, and includes 8,800,000 shares of Class B common stock held by Evershine XVI L.P., an entity controlled by a trust for the benefit of Mr. Chan's children. Mr. Chan specifically disclaims beneficial ownership of the shares held by ESS.
- (3) Includes 8,800,000 shares of Class B common stock held by Evershine XVI L.P. and 18,579,768 shares of Class A common stock to be received in the distribution. The shares of Class A common stock to be received in the distribution represent 12,549,492 shares held by the Annie M.H. Chan Living Trust; 4,446,592 shares held by trusts benefiting the children of Mr. and Mrs. Chan; 1,087,200 shares held by Mrs. Chan; 291,128 shares held by Mr. and Mrs. Chan jointly; options held by Mr. Chan to purchase 188,246 shares exercisable within 60 days of June 30, 2001 and options held by Mrs. Chan to purchase 17,110 shares exercisable within 60 days of June 30, 2001. Annie M.H. Chan is Mr. Chan's spouse.
- (4) Represents shares of Class A common stock to be received in the distribution.
- (5) Includes 205,356 shares of Class A common stock subject to options exercisable within 60 days of June 30, 2001.

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DESCRIPTION OF CAPITAL STOCK

GENERAL

Vialta is authorized to issue 400,000,000 shares of common stock, \$.001 par value, including 100,000,000 shares designated as Class A common stock, 50,000,000 shares designated as Class B common stock and 250,000,000 shares designated as non-classified common stock, and 30,000,000 shares of undesignated preferred stock, \$.001 par value. The following description of Vialta's capital stock is subject to and qualified in its entirety by its amended and restated certificate of incorporation and amended and restated bylaws, which are included as exhibits to the registration statement of which this information statement forms a part, and by the provisions of applicable Delaware law.

COMMON STOCK

Vialta has designated two classes of common stock: Class A common stock and Class B common stock. Holders of Class A common stock are entitled to 3.8 votes per share on all matters to be voted upon by the stockholders. Holders of Class B common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Upon the earliest to occur of the following:

- a ruling by the IRS that the distribution is a taxable event;
- the abandonment by ESS of its request for a ruling from the IRS that the distribution is a non-taxable event; or
- if ESS has not received a ruling from the IRS that the distribution is a non-taxable event, then June 30, 2002;

each share of Class A common stock and each share of Class B common stock will be automatically converted into one share of non-classified Vialta common stock and the holder of each share of such common stock will be entitled to one vote per share.

Subject to preferences that may be applicable to any outstanding preferred stock, the holders of Class A common stock and Class B common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of funds legally available for that purpose. See "Dividend Policy." In the event of Vialta's liquidation, dissolution or winding up, the holders of Class A common stock and Class B common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The holders of Class A common stock and Class B common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to Vialta's Class A common stock or Class B common stock.

PREFERRED STOCK

The board of directors has the authority, without action by the stockholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences and privileges of each series, which may be greater than the rights of the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock until the board of directors determines the specific rights of the holders of such preferred stock. However, the effects might include, among other things:

- restricting dividends on Vialta's common stock;
- diluting the voting power of Vialta's common stock;
- impairing the liquidation rights of Vialta's common stock; and
- delaying or preventing a change in control of Vialta without further action by its stockholders.

ANTI-TAKEOVER EFFECTS OF VIALTA'S CERTIFICATE, BYLAWS AND DELAWARE LAW

Some provisions of Delaware law and Vialta's amended and restated certificate of incorporation and amended and restated bylaws could make the following more difficult:

- acquisition of Vialta by means of a tender offer;
- acquisition of Vialta by means of a proxy contest or otherwise; and
- removal of Vialta's incumbent officers and directors.

These provisions, summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of Vialta to first negotiate with Vialta's board of directors. Vialta believes that the benefits of increased protection give it the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure

Vialta and outweigh the disadvantages of discouraging such proposals because negotiation of such proposals could result in an improvement of their terms.

Restrictions on Calling Stockholder Meetings. Under Vialta's amended and restated certificate of incorporation and amended and restated bylaws, only the board of directors, the Chairman of the board of directors and the Chief Executive Officer may call special meetings of stockholders.

Elimination of Stockholder Action by Written Consent. Vialta's amended and restated certificate of incorporation prohibits stockholder action by written consent, requiring instead all stockholder action to take place at a special meeting called in accordance with the bylaws or an annual meeting of the stockholders.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Vialta's amended and restated bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors.

Delaware Anti-Takeover Law. Vialta is subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date the person became an interested stockholder, unless the "business combination" or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns or within three years prior to the determination of interested stockholder status, did own, 15% or more of a corporation's voting stock. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of Vialta common stock held by stockholders.

Elimination of Cumulative Voting. Vialta's amended and restated certificate of incorporation and amended and restated bylaws do not provide for cumulative voting in the election of directors.

Classified Board of Directors. Vialta's amended and restated certificate of incorporation provides for a board of directors divided into three classes. The term of the first class of directors expires in 2002, the term of the second class of directors expires in 2003 and the term of the third class of directors expires in 2004. Thereafter, each class serves staggered three-year terms.

Exclusive Board Authority to Change the Size of the Board of Directors. Vialta's amended and restated certificate of incorporation eliminates the right of stockholders to set the size of the board of directors; instead that right is vested exclusively in the board of directors.

Restrictions on Removal of Directors, Filling Vacancies on the Board of Directors. Under Vialta's amended and restated certificate of incorporation, stockholders can remove directors only for cause. In

addition, any vacancies or newly created directorships on the board of directors can be filled only by a majority vote of the directors in office.

Undesignated Preferred Stock. The authorization of undesignated preferred stock makes it possible for the board of directors to issue preferred stock with

voting or other rights or preferences that could impede the success of any attempt to change control of Vialta. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of Vialta.

Provision Allowing the Board to Consider Factors Other than Price. Vialta's amended and restated certificate of incorporation permits the board of directors, when evaluating a potential business combination or takeover offer, to consider factors other than price per share, including whether the transaction complies with applicable laws or has adverse social, legal or economic effects upon employees, suppliers, customers and others having similar relationships with Vialta and the communities in which Vialta conducts its business.

Amendment of Charter Provisions and Bylaws. The amendment of any of the above provisions contained in Vialta's amended and restated certificate of incorporation would require approval by holders of at least 80% of the voting power of the outstanding Class A and Class B common stock, voting together as a single class. The amendment of any of the above provisions contained in Vialta's amended and restated bylaws would require approval of holders of at least 80% of the voting power of the outstanding Class A and Class B common stock, voting together as a single class.

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TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for Vialta's Class A common stock and Class B common stock is Mellon Investor Services.

WHERE TO FIND ADDITIONAL INFORMATION ABOUT VIALTA

Vialta has filed with the Securities and Exchange Commission a registration statement on Form 10, including exhibits and schedules, under the Securities Exchange Act of 1934 with respect to the shares to be distributed to holders of ESS common stock. This information statement does not contain all the information set forth in the registration statement. For further information about Vialta and the shares to be distributed, please refer to the registration statement. Statements contained in this information statement as to the contents of any contract, agreement or other document referred to, are not necessarily complete, and in each instance please refer to the copy of the contract, agreement or other document filed as an exhibit to the registration statement, each statement being qualified in all respects by this reference.

Any portion of the registration statement or any reports, statements or other information Vialta files with the SEC may be read and copied at the Securities and Exchange Commission's public reference room at Room 1024, Judiciary Plaza, 450 Fifth Street, N.C., Washington, D.C. 20549 and at the regional offices of the Securities and Exchange Commission located at Seven World Trade Center, 13th Floor, New York, New York 10048 and the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of these documents may be requested upon payment of a duplicating fee, by writing to the Securities and Exchange Commission. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The Securities and Exchange Commission filings, including the registration statement will also be available to you on the Securities and Exchange Commission's web site. The address of this site is <http://www.sec.gov>.

Vialta intends to furnish to its stockholders annual reports containing audited financial statements, and to make available to its stockholders quarterly reports for the first three quarters of each year containing unaudited interim financial information.

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VIALTA, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Statements of Operations.....	F-4
Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Deficit.....	F-5
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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Vialta, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, redeemable convertible preferred stock and stockholders' deficit and cash flows present fairly, in all material respects, the financial position of Vialta, Inc. (a development stage enterprise) and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for the year ended December 31, 2000 and for the period from April 20, 1999 (date of inception) to December 31, 1999 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Vialta's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

San Jose, California
January 21, 2001, except for Note 2 and Note 12,
as to which the date was May 25, 2001.

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VIALTA, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS)

<TABLE>
<CAPTION>

	PRO FORMA MARCH 31, 2001 (SEE NOTE 3)	MARCH 31, 2001	DECEMBER 31, -----	
	-----	-----	2000	1999
	(UNAUDITED)	(UNAUDITED)		
<S>	<C>	<C>	<C>	<C>
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 98,009		\$109,378	\$ 90,500
Short-term investments.....	--		27,112	22,344
Receivables from ESS.....	--		650	--
Receivable from other related party.....	60		60	--
Inventory, net.....	2,561		2,057	--
Prepaid expenses and other current assets.....	4,243		4,207	16
	-----		-----	-----
Total current assets.....	104,873		143,464	112,860

Property and equipment, net.....	10,218	9,230	1,720
Other assets.....	2,358	997	--
	-----	-----	-----
Total assets.....	\$117,449	\$153,691	\$114,580
	=====	=====	=====
LIABILITIES, REDEEMABLE			
CONVERTIBLE PREFERRED STOCK			
AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Accounts payable.....	\$ 1,043	\$ 1,376	\$ 228
Accrued expenses and other current liabilities...	2,646	2,218	503
Payable to ESS.....	332	--	209
Payable to other related party.....	--	30,000	--
	-----	-----	-----
Total current liabilities.....	4,021	33,594	940
	-----	-----	-----
Commitments (Note 11)			
Redeemable convertible preferred stock, \$0.001 par value; 180,000 shares authorized, 91,000, 91,000 and 80,300 shares issued and outstanding, respectively (aggregate liquidation value at December 31, 2000 of \$142,600); on a pro forma basis, 30,000 shares authorized, none issued and outstanding.....	142,600	142,600	114,780
Stockholders' deficit: Common Stock, \$0.001 par value, 300,000 shares authorized, 6,231, 6,231 and 6,220 shares issued and outstanding, respectively; on a pro forma basis, 75,000 and 75,000 shares of Class A and Class B authorized, respectively, 51,461 and 40,514 shares of Class A and Class B, issued and outstanding, respectively.....	\$ 92	6	6
Additional paid in capital.....	144,143	1,629	1,549
Receivables from stockholders.....	--	--	(1,475)
Deficit accumulated during the development stage.....	(30,807)	(30,807)	(24,138)
	-----	-----	-----
Total stockholders' deficit.....	\$113,428	\$(29,172)	\$(22,503)
	=====	=====	=====
Total liabilities, redeemable convertible preferred stock and stockholders' deficit...	\$117,449	\$153,691	\$114,580
	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

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VIALTA, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

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

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MARCH 31,		PERIOD FROM APRIL 20, 1999 (DATE OF INCEPTION) THROUGH MARCH 31, 2001	YEAR ENDED DECEMBER 31, 2000	PERIOD FROM APRIL 20, 1999 (DATE OF INCEPTION) THROUGH DECEMBER 31, 1999
	2001	2000	2001	2000	1999
	-----	-----	-----	-----	-----
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
<S>	<C>	<C>	<C>	<C>	<C>
Operating expenses:					
Research and development, including \$3,077 and \$233 charged by ESS during the year ended December 31, 2000 and the period ended December 31, 1999, respectively.....	\$ 4,528	\$ 5,678	\$ 25,455	\$ 19,558	\$ 1,369
Sales and marketing, including \$362 and \$33 charged by ESS during the year ended December 31, 2000 and the period ended December 31, 1999, respectively.....	995	600	4,584	2,927	662

General and administrative, including \$2,999 and \$299 charged by ESS during the year ended December 31, 2000 and the period ended December 31, 1999, respectively.....	2,357	1,153	9,566	6,699	510
Operating loss.....	(7,880)	(7,431)	(39,605)	(29,184)	(2,541)
Interest income.....	1,397	1,951	9,654	7,745	512
Interest expense.....	(167)	--	(224)	(57)	--
Other income (expense).....	(19)	(1)	(1,692)	(1,682)	9
Loss before income tax benefit....	(6,669)	(5,481)	(31,867)	(23,178)	(2,020)
Income tax benefit.....	--	65	1,060	260	800
Net loss.....	\$ (6,669)	\$ (5,416)	\$ (30,807)	\$ (22,918)	\$ (1,220)
Net loss per share attributable to common shares -- basic and diluted.....	\$ (1.07)	\$ (0.87)		\$ (3.68)	\$ (0.71)
Weighted average common shares outstanding.....	6,231	6,220		6,222	1,716
Pro-forma net loss per share -- basic and diluted (unaudited).....	\$ (0.07)			\$ (0.29)	
Pro-forma weighted average common shares outstanding (unaudited)...	91,975			91,247	

</TABLE>

The accompanying notes are an integral part of these financial statements.

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VIALTA, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK

AND STOCKHOLDERS' DEFICIT

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	REDEEMABLE CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID IN CAPITAL	RECEIVABLE FROM STOCKHOLDERS	DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' DEFICIT
	SHARES	AMOUNT	SHARES	AMOUNT				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Issuance of Common Stock, at \$0.25 per share.....	--	\$ --	6,220	\$ 6	\$1,549	\$ --	\$ --	\$ 1,555
Issuance of Series A redeemable convertible preferred stock, at \$0.25 per share.....	40,000	10,000	--	--	--	--	--	--
Issuance of Series B redeemable convertible preferred stock, at \$2.60 per share.....	40,300	104,780	--	--	--	--	--	--
Issuance of note receivable in connection with issuance of common stock.....	--	--	--	--	--	(1,475)	--	(1,475)
Net loss.....	--	--	--	--	--	--	(1,220)	(1,220)
Balances at December 31, 1999....	80,300	114,780	6,220	6	1,549	(1,475)	(1,220)	(1,140)
Issuance of Series B redeemable convertible preferred stock, at \$2.60 per share.....	10,700	27,820	--	--	--	--	--	--
Exercise of stock options.....	--	--	11	--	3	--	--	3
Income tax benefit on disqualified disposition of stock options....	--	--	--	--	77	--	--	77
Repayment of note receivable from shareholders.....	--	--	--	--	--	1,475	--	1,475
Net loss.....	--	--	--	--	--	--	(22,918)	(22,918)

Balances at December 31, 2000.....	91,000	142,600	6,231	6	1,629	--	(24,138)	(22,503)
Net loss (unaudited).....	--	--	--	--	--	--	(6,669)	(6,669)
	-----	-----	-----	-----	-----	-----	-----	-----
Balances at March 31, 2001 (unaudited).....	91,000	\$142,600	6,231	\$ 6	\$1,629	\$ --	\$ (30,807)	\$ (29,172)
	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

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VIALTA, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS IN THOUSANDS)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MARCH 31,		PERIOD FROM APRIL 20, 1999 (DATE OF INCEPTION) THROUGH MARCH 31, 2001	YEAR ENDED DECEMBER 31, 2000	PERIOD FROM APRIL 20, 1999 (DATE OF INCEPTION) THROUGH DECEMBER 31, 1999
	2001	2000	MARCH 31, 2001	2000	1999
	(UNAUDITED)		(UNAUDITED)		
<S>	<C>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net loss.....	\$ (6,669)	\$ (5,416)	\$ (30,807)	\$ (22,918)	\$ (1,220)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization.....	1,235	562	5,127	3,887	5
Writedown of long term investment.....	--	--	1,667	1,667	--
Income tax benefit on disqualifying disposition of common stock options.....	--	--	(77)	(77)	--
Changes in assets and liabilities:					
Prepaid expenses and other current assets.....	(36)	(2,224)	(4,243)	(4,191)	(16)
Receivable/payable from/to ESS.....	982	2,873	409	(782)	209
Receivable from/payable to other related party...	--	--	(60)	(60)	--
Inventory.....	(504)	(439)	(2,561)	(2,057)	--
Other assets.....	--	--	(53)	(53)	--
Accounts payable.....	(333)	618	1,043	1,148	228
Accrued expenses and other current liabilities...	428	1,323	2,723	1,792	503
Net cash used in operating activities.....	(4,897)	(2,703)	(26,832)	(21,644)	(291)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property and equipment.....	(1,584)	(3,602)	(13,317)	(10,008)	(1,725)
Purchase of short-term investments.....	--	(18,454)	(120,788)	(98,444)	(22,344)
Sale of short-term investments.....	27,112	9,849	120,788	93,676	--
Purchase of long-term investments.....	(2,000)	(3,500)	(6,000)	(4,000)	--
Net cash provided by (used in) investing activities.....	23,528	(15,707)	(19,317)	(18,776)	(24,069)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from (repayment of) notes payable to related party.....	(30,000)	--	--	30,000	--
Proceeds from issuance of redeemable convertible preferred stock.....	--	27,820	142,600	27,820	114,780
Proceeds from issuance of common stock.....	--	1,475	1,558	1,478	80
Net cash provided by (used in) financing activities.....	(30,000)	29,295	144,158	59,298	114,860
Net increase (decrease) in cash and cash equivalents...	(11,369)	10,885	98,009	18,878	90,500
Cash and cash equivalents beginning of period.....	109,378	90,500	--	90,500	--
Cash and cash equivalents at end of period.....	\$ 98,009	\$101,385	\$ 98,009	\$109,378	\$ 90,500
SUPPLEMENTAL NONCASH FINANCING ACTIVITY:					
Issuance of note receivable in connection with issuance of common stock.....	\$ --	\$ --	\$ 1,475	\$ --	\$ 1,475

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest.....	\$ 194	\$ --	\$ --	\$ --	\$ --
	=====	=====	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

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VIALTA, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

Vialta, Inc. ("Vialta") was incorporated in California in April 1999. Vialta is majority owned by ESS Technology, Inc. ("ESS"). Vialta has developed a multi-purpose DVD player ("ViDVD") that offers Internet access and other features, such as CD, MP3, karaoke, and support for other audio and video formats. These features differentiate it from most DVD players currently available in the U.S. consumer market. This ViDVD player is the first product offering from Vialta's "Digital Home System" platform, which the Company anticipates will grow to support a family of multimedia Internet appliances. Vialta intends to commence shipments of the ViDVD through retail distribution channels in August 2001.

The accompanying financial statements include the consolidated accounts of Vialta and its wholly owned subsidiaries.

On April 21, 2001, the Board of Directors of ESS approved the spin-off of ESS' interest in Vialta to ESS' shareholders. The transaction will be completed within twelve months resulting in Vialta operating as a stand alone business, independent from ESS.

Since its inception, Vialta has been in the development stage. Vialta has been successful in completing its private equity financing with its last round totaling approximately \$132.6 million. However, Vialta has incurred substantial losses and negative cash flows from operations in every fiscal period since inception. For the cumulative period ended March 31, 2001, Vialta incurred a loss from operations of approximately \$30.8 million (unaudited) and negative cash flows from operations of \$26.8 million (unaudited). Management expects operating losses and negative cash flows to continue for the foreseeable future and anticipates that losses will increase significantly from current levels because of additional costs and expenses related to marketing activities, continued expansion of operations, continued development of Vialta's web site and information technology infrastructure, expansion of product offerings and development of relationships with other businesses. Management believes that Vialta has sufficient cash, cash equivalents, and short term investments to fund its development and growth. However, in the longer term, failure to generate sufficient revenues, raise additional capital or reduce certain discretionary spending could have a material adverse effect on Vialta's ability to achieve its intended business objectives.

2. REINCORPORATION IN DELAWARE

On May 25, 2001, Vialta was reincorporated in the State of Delaware. As a result of the reincorporation, the Company is authorized to issue 180 million shares of preferred stock, \$0.001 par value per share, and 300 million shares of common stock, \$0.001 par value per share. All common stock and preferred stock amounts in the accompanying financial statements have been restated to give effect to the reincorporation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Results

The accompanying interim financial statements and footnote disclosures as of March 31, 2001 and for the three months ended March 31, 2000 and 2001 and the cumulative financial information from inception through March 31, 2001, are unaudited. The unaudited interim financial statements have been prepared on the

same basis as the annual financial statements and, in the opinion of management, reflect the financial position, results of operations and cash flows as of March 31, 2001 and for the three months ended March 31, 2000 and 2001 and cumulatively from inception through March 31, 2001. The financial data and other information disclosed in these notes to financial statements related to these periods are unaudited. The unaudited interim financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods. All such adjustments are

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VIALTA, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

of a normal recurring nature. The results for the three months ended March 31, 2001 are not necessarily indicative of the results to be expected for the year ending December 31, 2001.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The accounts of Vialta and its consolidated subsidiaries are included in the consolidated financial statements after elimination of significant intercompany accounts and transactions.

Cash Equivalents and Short-Term Investments

Vialta considers all highly liquid investments with an initial maturity of 90 days or less to be cash equivalents.

Short-term investments are comprised primarily of debt instruments that have been classified as available-for-sale. Management determines the appropriate classification of securities at the time of purchase and reevaluates the classification at each reporting date. At December 31, 2000, the fair value of Vialta's investments approximated their cost.

Fair Value of Financial Instruments

The reported amounts of certain of Vialta's financial instruments, including cash and cash equivalents, short-term investments, receivables from related parties and stockholders, accounts payable, accrued expenses and other current liabilities approximate fair value due to their short maturities. The carrying amounts of the note payable to related party approximate fair value because the contractual interest rate approximates the interest rate Vialta could obtain on similar financing transactions.

Concentration of Credit Risk

Cash and cash equivalents are deposited in large domestic financial institutions that management believes are creditworthy.

Risks and Uncertainties

Vialta operates in a single business segment that is characterized by rapid technological advances, changes in customer requirements and evolving industry standards. Any failure by Vialta to anticipate or respond to changes in demand could have a material adverse effect on its business and operating results.

Web Site Development Costs

Web site development costs are accounted for in accordance with Statement of Position ("SOP") 98-1, "Development Costs Associated with Internal Use

Software", and Emerging Issues Task Force ("EITF") 00-02, which require these costs to be charged to operations until certain capitalization criteria are met. For the year ended December 31, 2000, web site development costs of approximately \$2.7 million

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VIALTA, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

were capitalized and will be amortized over a 12-month period, starting at the date when the web site will be put into service.

Research and Development

Research and development costs are expensed as incurred.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined by the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets.

<TABLE>

<S>	<C>
Computer equipment.....	3 - 5 years
Furniture and fixtures.....	5 years
Software and web site development costs.....	1 - 3 years

</TABLE>

Repairs and maintenance costs are expensed as incurred.

Long-Lived Assets

Pursuant to Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS No. 121"), Vialta reviews long-lived assets based upon a gross cash flow basis and will record an impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. If an asset is considered impaired, the asset is written down to fair value, which is determined based either on discounted cash flows or appraised values, depending on the nature of the asset.

Revenue Recognition

Vialta will generally recognize revenues upon shipment of products provided that Vialta has no post-sale obligations, can reliably estimate and accrue returns, the price is fixed and determinable and the sales proceeds are deemed collectible. For transactions that do not meet the above criteria, revenue will be deferred until such criteria are met.

Stock-Based Compensation

Vialta accounts for stock-based employee compensation in accordance with provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Vialta's policy is to grant options with an exercise price equal to the fair market value of Vialta's stock on the grant date.

Income Taxes

Vialta accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of timing differences between the carrying amounts and

VIALTA, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Comprehensive Income (Loss)

Financial Accounting Standard No. 130 ("SFAS No. 130"), "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income, as defined, includes all changes in equity during a period from non-owner sources. There is no difference between net loss and comprehensive loss.

Income (Loss) Per Share

Basic earnings per share ("EPS") excludes dilution and are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25." The adoption of FIN 44 did not have a material effect on the financial position or results of operations of Vialta.

Pro Forma Stockholders' Equity and Pro Forma Net Loss Per Share (Unaudited)

Effective as part of the spin-off transaction, ESS will return 8,939,000 shares of Series A preferred stock to Vialta at no cost, Vialta will distribute 583,000 shares in a stock dividend to non-ESS common stockholders and Vialta will separate its common stock into Class A common stock with 3.8 votes per share and Class B common stock with one vote per share. Besides the voting power, Class A and Class B stockholders will have the same rights. Vialta will authorize 30,000,000 shares of preferred stock, and 400,000,000 shares of common stock, 100,000,000 shares of which will be designated Class A common stock, 50,000,000 shares of which will be designated Class B common stock, and 250,000,000 of which will be designated non-classified common stock. The 8,939,000 shares of Series A preferred stock will be reserved as Class A common stock for issuance upon exercise of stapled stock options that will be granted by Vialta to ESS optionees as part of the spin-off transaction. In accordance with FIN 44, no compensation expense will result from these stock option grants. The pro forma effect of these transactions is unaudited and has been reflected in the accompanying pro forma stockholders' equity as of March 31, 2001.

Pro forma net loss per share for the year ended December 31, 2000 and the three months ended March 31, 2001 assumes the preferred shares will be exchanged for Class A or Class B common shares in accordance with signed stockholder agreements and ESS will return 8,939,000 shares of Series A preferred stock to Vialta at no cost, as shown in the table below (in thousands):

<TABLE>
<CAPTION>

	PREFERRED SHARES OUTSTANDING	CONVERSION RATIO	PRO FORMA COMMON CLASS A	COMMON SHARES CLASS B	OUTSTANDING TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Series A.....	40,000	1 to 1	40,000	--	40,000
Series B -- ESS owned.....	20,000	1 to 1	20,000	--	20,000
Series B -- third party owned.....	31,000	1.1 to 1	--	34,100	34,100
	91,000		60,000	34,100	94,100
Less -- Shares returned to Vialta.....			(8,939)	--	(8,939)
Distribution of stock dividends.....			--	583	583
Common Stock outstanding.....			400	5,831	6,231
Total shares outstanding.....			51,461	40,514	91,975
			=====	=====	=====

</TABLE>

VIALTA, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The pro forma net loss per share computation assumes the above exchanges and conversions occurred on January 1, 2000 or the date of original issuance, if later, and the distribution of stock dividends on January 1, 2000.

The following table sets forth the computation of basic and diluted pro forma unaudited loss per share attributable to common stockholders of the period indicated (amounts in thousands, except per share data):

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MARCH 31, 2001	YEAR ENDED DECEMBER 31, 2000
	-----	-----
<S>	<C>	<C>
Numerator:		
Net loss, as reported.....	\$ (6,669)	\$ (22,918)
Deemed dividend upon conversion of redeemable convertible preferred stock (unaudited).....	--	(3,658)
	-----	-----
Net loss applicable to common shareholders, pro forma (unaudited).....	\$ (6,669)	\$ (26,576)
	=====	=====
Denominator:		
Denominator for basic and dilutive net loss per share, as reported.....	6,231	6,222
Effect of conversion of redeemable convertible preferred stock into common stock, net of 8,939,000 shares returned to Vialta (unaudited).....	85,161	84,442
Effect of distribution of stock dividends (unaudited).....	583	583
	-----	-----
Denominator for basic and dilutive net loss per share, pro forma (unaudited).....	91,975	91,247
	=====	=====
Basic and diluted net loss per share, pro forma (unaudited).....	\$ (0.07)	\$ (0.29)
	=====	=====

</TABLE>

The fair value of the deemed dividend upon conversion of redeemable convertible preferred stock is based on a valuation performed in March 2001 by an independent party.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133" ("SFAS 137"). SFAS 133 requires that all derivative financial instruments be recorded on the balance sheet at their fair market value. Changes in the fair market value of derivatives are recorded each period in current earnings or comprehensive income, depending on whether a derivative is designed as a part of a hedge transaction, and if so, the type of hedge transaction. The effective date of SFAS 133, as amended, is for fiscal years beginning after June 15, 2000. Vialta does not currently hold derivative instruments nor engage in hedging activities.

VIALTA, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. BALANCE SHEET COMPONENTS

<TABLE>
<CAPTION>

(AMOUNTS IN THOUSANDS)	MARCH 31,	DECEMBER 31,	
	2001	2000	1999
	(UNAUDITED)		
<S>	<C>	<C>	<C>
PROPERTY AND EQUIPMENT			
Machinery and equipment.....	\$ 6,993	\$ 6,275	\$ 221
Furniture and fixtures.....	1,315	1,212	4
Software and web site development cost.....	5,020	4,246	1,500
	-----	-----	-----
	13,328	11,733	1,725
Less: Accumulated depreciation.....	(3,110)	(2,503)	(5)
	-----	-----	-----
	\$10,218	\$ 9,230	\$1,720
	=====	=====	=====

</TABLE>

Depreciation expense was approximately \$2,498,000 and \$5,000 for the year ended December 31, 2000 and for the period from April 20, 1999 through December 31, 1999, respectively.

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

<TABLE>
<CAPTION>

(AMOUNTS IN THOUSANDS)	MARCH 31,	DECEMBER 31,	
	2001	2000	1999
	(UNAUDITED)		
<S>	<C>	<C>	<C>
Accrued payroll and compensation expenses.....	\$ 2,507	\$ 2,178	\$ 187
Other.....	139	40	316
	-----	-----	-----
	\$ 2,646	\$ 2,218	\$ 503
	=====	=====	=====

</TABLE>

OTHER ASSETS

<TABLE>
<CAPTION>

(AMOUNTS IN THOUSANDS)	MARCH 31,	DECEMBER 31,	
	2001	2000	1999
	(UNAUDITED)		
<S>	<C>	<C>	<C>
Loan and notes receivable.....	\$ 588	\$ 997	\$ --
Investment.....	1,770	--	--
	-----	-----	-----
	\$ 2,358	\$ 997	\$ --
	=====	=====	=====

</TABLE>

Vialta occasionally makes equity investments in and/or loans to companies. To date, these activities have not been significant. During the first quarter of 2000 Vialta made a \$2.5 million equity investment in a development stage company ("Investee"). Because the Investee was in the early stage of development, Vialta amortized the carrying value of its investment as the Investee used its cash to develop and introduce its products and services. During the third quarter of 2000, Vialta concluded that the investment suffered an other than temporary decline in value because the Investee's balances declined significantly and Vialta believed that the Investee would have difficulty raising additional funds. Consequently, Vialta wrote off \$1.7 million, the remaining unamortized value of the investment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. STOCK OPTIONS

1999 Stock Incentive Plan

In August 1999, Vialta adopted the 1999 stock incentive plan (the "1999 Plan"). Under the 1999 Plan, Vialta's incentive stock options ("ISO") may be granted to its employees, directors, non-employee directors and consultants. The aggregate number of shares reserved for awards under the Plan shall not exceed 10,000,000 shares. The exercise price of an ISO shall not be less than 100% of the fair market value (110% for 10 percent stockholders); the exercise price of a non-incentive stock option ("NSO") shall not be less than 85% of the fair market value (110% for 10 percent stockholders). Options shall generally vest over a four-year period.

2000 Directors Stock Option Plan

In February 2000, Vialta adopted the 2000 Directors Stock Option Plan (the "2000 Director Plan"). Under the 2000 Director Plan, Vialta's nonqualified stock options ("NSO") may be granted to nonemployee members of the board of directors of Vialta. The aggregate number of shares reserved for issuance is 300,000 shares subject to adjustment as provided in the 2000 Director Plan. Each optionee who becomes a member of the board of directors will automatically be granted an option for 32,000 shares. The exercise price of the option shall be the fair market value at the time the option is granted. Options shall generally vest over a four-year period.

A summary of the activities in the 1999 Plan and 2000 Director Plan is as follows:

<TABLE>

<CAPTION>

	AVAILABLE FOR GRANT	OPTIONS OUTSTANDING	
		NUMBERS OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>
Adoption of the 1999 Plan.....	10,000,000		\$ --
Granted.....	(1,693,000)	1,693,000	0.263
Cancelled.....	60,000	(60,000)	0.250
	-----	-----	-----
Balance at December 31, 1999.....	8,367,000	1,633,000	0.264
Adoption of the 2000 Director Plan.....	300,000		
Granted.....	(903,200)	903,200	1.982
Cancelled.....	369,500	(369,500)	0.921
Exercised.....	--	(10,500)	0.250
	-----	-----	-----
Balance at December 31, 2000.....	8,133,300	2,156,200	\$0.871
	=====	=====	=====

</TABLE>

The options outstanding and currently exercisable at December 31, 2000 are detailed as follows:

<TABLE>

<CAPTION>

EXERCISE PRICE	NUMBER OUTSTANDING	OPTIONS OUTSTANDING		OPTIONS CURRENTLY EXERCISABLE	
		WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
\$0.25	396,000	8.79	\$0.25	146,500	\$0.25
0.28	1,000,000	8.76	0.28	--	--
1.95	356,000	9.13	1.95	3,750	1.95
2.01	404,200	9.45	2.01	--	--
	-----			-----	
	2,156,200			150,250	
	=====			=====	

</TABLE>

VIALTA, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At December 31, 1999, no options were exercisable.

Fair Value Disclosures

Had compensation cost for Vialta's stock-based compensation plan been determined based on the fair value at the grant dates for the awards under the method prescribed by SFAS No. 123, Vialta's net loss would have been increased to the pro forma amounts indicated below (amounts in thousands, except per share amounts):

	PERIOD FROM APRIL 20, 1999 (DATE OF INCEPTION) THROUGH MARCH 31, 2001 ----- (UNAUDITED)	YEAR ENDED DECEMBER 31, 2000 -----	PERIOD FROM APRIL 20, 1999 (DATE OF INCEPTION) THROUGH DECEMBER 31, 1999 -----
<S>	<C>	<C>	<C>
Net loss:			
As reported.....	\$(30,807)	\$(22,918)	\$(1,220)
	=====	=====	=====
Pro forma.....	\$(31,023)	\$(23,076)	\$(1,225)
	=====	=====	=====
Net loss per share -- basic and diluted			
As reported.....		\$ (3.68)	\$ (0.71)
		=====	=====
Pro forma.....		\$ (3.71)	
		=====	

Vialta calculated the fair value of each option grant on the date of grant using the Black-Scholes pricing method with the following assumptions: dividend yield and volatility of 0%; expected option term of 4 or 5 years; risk-free interest rates ranging from 5.94% to 6.76%. These pro forma amounts may not be representative of the effects on reported net loss for future years as options vest over several years and additional awards are generally made each year. The weighted-average fair value of options granted with an exercise price equal to the deemed fair market value on the date of grant was \$0.05 and \$0.45 in 1999 and 2000, respectively. The weighted-average fair value of options granted with an exercise price above the deemed fair market value on the date of grant was \$0.04 in 1999.

7. INCOME TAXES

Benefit from income taxes consisted of the following (amounts in thousands):

	DECEMBER 31, -----	
<S>	2000	1999
<S>	<C>	<C>
Current:		
Federal.....	\$ --	\$707
State.....	260	93
	-----	-----
	\$260	\$800
	=====	=====

Vialta filed a consolidated federal tax return with ESS in 1999 and filed a consolidated state tax return with ESS in 1999 and 2000. As a result, ESS realized a tax benefit of \$800,000 and \$260,000 for utilizing Vialta's net operating losses in 1999 and 2000, respectively. ESS reimbursed Vialta for this tax benefit in accordance with the tax sharing arrangements between ESS and

VIALTA, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

A reconciliation between the provision for income taxes computed at the federal statutory rate of 35% for the years ended December 31, 1999 and 2000 and the benefit from income taxes is as follows (amounts in thousands):

	DECEMBER 31,	
	2000	1999
<S>	<C>	<C>
Benefit from income taxes at statutory rate.....	\$ 7,830	\$707
State income taxes net of federal tax benefit.....	1,032	93
Other.....	883	3
Valuation allowance.....	(9,485)	(3)
	-----	----
Benefit from income taxes.....	\$ 260	\$800
	=====	=====

</TABLE>

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those used for federal and state income tax purposes. Significant components of deferred tax assets for federal and state income taxes are as follows (amounts in thousands):

	DECEMBER 31,	
	2000	1999
<S>	<C>	<C>
Net operating loss carryforwards.....	\$ 9,485	\$ --
Other.....	3	3
	-----	----
Gross deferred tax assets.....	9,488	3
Valuation allowance.....	(9,488)	(3)
	-----	----
Net deferred tax assets.....	\$ --	\$ --
	=====	=====

</TABLE>

Management believes that, based on a number of factors, it is more likely than not that the deferred tax assets will not be utilized. Accordingly, a full valuation allowance has been recorded.

As at December 31, 2000, Vialta had approximately \$22.5 million and \$16.6 million of federal and state net operating loss carryforward, respectively. These losses will expire in 2020 and 2007, respectively. The spin-off of Vialta will not cause a limitation on Vialta's ability to use its net operating loss carryforward. Under the Tax Reform Act of 1986, the amounts of benefits from net operating loss carryforwards may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses that Vialta may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50%, as defined, over a three-year period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders of the period indicated (in

thousands, except per share data):

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,	
	2001	2000	2000	1999
	(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>
Numerator:				
Net loss.....	\$ (6,669)	\$ (5,416)	\$ (22,918)	\$ (1,220)
	=====	=====	=====	=====
Denominator:				
Denominator for basic net loss per share -- weighted average common shares....	6,231	6,220	6,222	1,716
Effect of dilutive securities				
Common Stock options.....	--	--	--	--
Convertible Preferred Stock.....	--	--	--	--
	-----	-----	-----	-----
Denominator for dilutive net loss per share....	6,231	6,220	6,222	1,716
	=====	=====	=====	=====
Basic and diluted net loss per share.....	\$ (1.07)	\$ (0.87)	\$ (3.68)	\$ (0.71)
	=====	=====	=====	=====

</TABLE>

The following table sets forth potential shares of common stock that are not included in the diluted net loss per share calculation above because to do so would be antidilutive for the periods indicated (in thousands):

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,	
	2001	2000	2000	1999
	(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>
Effect of common stock equivalents:				
Options outstanding.....	2,102	2,002	2,156	1,633
Shares resulting from the conversion of the Preferred Stock.....	91,000	91,000	91,000	80,300
	-----	-----	-----	-----
Total common stock equivalents excluded from the computation of basic and diluted earnings per share as their effect was antidilutive.....	93,102	93,002	93,156	81,933
	=====	=====	=====	=====

</TABLE>

9. RELATED PARTY TRANSACTIONS

Effective August 1, 1999, Vialta entered into a Research and Development Service Agreement with ESS whereby ESS provides certain research and development activities to Vialta in exchange for a service fee. In addition, Vialta signed a reciprocal agreement whereby Vialta provides certain non-recurring expense services for the design and development of Internet related products and technologies to ESS in exchange for a service fee. In 2000 and 1999, Vialta did not provide such services to ESS. In 2000 and 1999, such services from ESS to Vialta amounted to \$3.1 million and approximately \$233,000, respectively.

Effective August 1, 1999, Vialta entered into an Administrative and Management Service Agreement with ESS whereby ESS provides certain administrative and managerial services to include, without limitation, general and administrative, sales support, marketing support, office space, production and logistical support, financial oversight, accounting assistance, contract review, personnel services (including

training of employees) and such other general and administrative services as Vialta requires. In 2000 and 1999, ESS performed these services for a service fee of \$3.4 million and approximately \$302,000, respectively. In addition, Vialta signed a reciprocal agreement whereby Vialta provides the services mentioned above to ESS in exchange for a service fee. In 1999 and 2000, Vialta did not provide such services to ESS.

Effective August 1, 1999, Vialta entered into a Purchase Agreement with ESS whereby Vialta will purchase certain products. In 2000 and 1999, Vialta purchased products from ESS for \$1.0 million and \$0, respectively.

ESS charges to Vialta under the above agreements are based on actual expenses incurred plus a service fee of 5% to 10%. Certain expenses are determined using allocation formulas based on square footage or headcount, depending on the nature of the expense incurred. Management believes the methods of allocation are reasonable.

In September 1999, Vialta issued 40 million shares of Series A convertible preferred stock at \$0.25 per share to ESS for \$10 million in cash. In October 1999, Fred S.L. Chan, Chairman of ESS and Chairman and Chief Executive Officer of Vialta, purchased 4 million shares of Vialta common stock at \$0.25 per share for \$1.0 million by issuing a full recourse promissory note to Vialta, which bore interest at a market rate. The principal and accrued interest under this promissory note was paid in full in March 2000. Also in October 1999, Vialta issued 400,000 and 1,820,000 common shares at \$0.25 per share to ESS and certain employees, respectively, for full recourse promissory notes in the aggregate principal amount of \$555,000. These notes were fully paid in cash to Vialta in the first quarter of 2000.

In December 1999, Vialta issued 40.3 million shares of Series B convertible preferred stock at \$2.60 per share for \$104.8 million, of which 20 million shares were issued to ESS for \$52.0 million.

In January 2000, Vialta received \$20.8 million in the form of a full recourse promissory note, which bore interest at a market rate, from a party controlled by Fred S.L. Chan, Chairman of ESS and Chairman and Chief Executive Officer of Vialta, and his wife Annie M.H. Chan, a director of ESS, for the purchase of 8 million shares of Series B preferred stock at \$2.60 per share. The principal and accrued interest under this promissory note was paid in full in March 2000.

In January 2000, Vialta entered into an Assignment of Intellectual Property Agreement with ESS whereby Vialta paid ESS \$2.0 million for the transfer of the Videophone and EnReach -- based web browser technologies. Such transfer was done based on actual costs incurred.

In April 2000, Vialta loaned to an officer of Vialta \$60,000, which, together with accrued interest at the annual rate of 6%, was due and payable on April 20, 2001.

On December 18, 2000, Vialta received a \$30.0 million loan from a related party controlled by Annie M.H. Chan, a director of ESS and the spouse of Fred S.L. Chan, Chairman of ESS and Chairman and Chief Executive Officer of Vialta. The short-term loan along with approximately \$194,000 accrued interest at 5.25% was repaid on January 31, 2001.

Vialta realized \$800,000 and \$260,000 income tax benefit from ESS for ESS's use of Vialta's net operating losses realized in 1999 and 2000, respectively.

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10. SEGMENT AND GEOGRAPHIC INFORMATION

Vialta operates as one segment. Information about long-lived assets is as follows (amounts in thousands):

<TABLE>
<CAPTION>

	DECEMBER 31,	
	2000	1999
<S>	<C>	<C>
United States.....	\$ 9,362	\$1,720
Hong Kong.....	\$ 32	\$ --
Canada.....	833	--
Total Foreign.....	865	--
Total Long-lived assets	\$10,227	\$1,720

</TABLE>

11. COMMITMENTS

In November 1999, Vialta entered into noncancelable lease agreements for its offices in various locations and with various expiration dates through 2004. Under the terms of these leases, future minimum rental payments are as follows:

<TABLE>
<CAPTION>

	AMOUNTS
	IN THOUSANDS
<S>	<C>
Year ending December 31, 2000	
2001.....	\$ 319
2002.....	286
2003.....	239
2004.....	180
2005.....	--
	\$1,024

</TABLE>

Rent expense was approximately \$93,000 and \$13,000 for the year ended December 31, 2000 and for the period from April 20, 1999 through December 31, 1999, respectively.

12. SUBSEQUENT EVENTS

In January 2001, Vialta entered into an Asset Purchase Agreement to acquire certain assets from I-Computer Limited, a British Virgin Islands Corporation. I-Computer Limited is in the business of developing video DVD and related entertainment and consumer products and extending such technology to educational and game applications. Vialta paid \$1.0 million on January 17, 2001 in conjunction with this asset purchase.

On March 9, 2001, Vialta entered into an agreement with TAO Music, Inc. ("TAO") to purchase 19% of the outstanding shares of TAO in consideration for the payment of \$1 million in cash. Vialta also obtained a warrant to purchase an additional 6% interest of the then outstanding equity on a fully diluted basis for a fixed price of \$500,000 within the next 18 months. TAO is an early stage company with revenues and net losses of approximately \$7.6 million and \$300,000 for the period from April 2000 (date of inception) to March 31, 2001, respectively. Vialta will account for this investment using the equity method of accounting.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

On April 21, 2001, the Board of Directors of ESS approved the spin-off of ESS's interest in Vialta to ESS shareholders. The transaction is expected to be completed within twelve months from the Board's decision date. As a result of the spin-off transaction, Vialta will operate independently of ESS and will need to establish its own processes to support its operations.

On May 25, 2001, Vialta was reincorporated in the State of Delaware (see Note 2).

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