FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

CHIPS & TECHNOLOGIES INC
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SIC: **3674** Semiconductors & related devices

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED) FOR THE FISCAL YEAR ENDED JUNE 30, 1994

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

FOR THE TRANSITION PERIOD FROM ____ TO _____

COMMISSION FILE NUMBER 0-15012

CHIPS AND TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	77-0047943
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2950 ZANKER ROAD, SAN JOSE CALIFORNIA (Address of principal executive offices)	95134 (Zip Code)

Registrant's telephone number, including area code (408) 434-0600

Securities registered pursuant to Section 12(B) of the Act: NONE

Securities registered pursuant to Section 12(G) of the Act:

COMMON STOCK, $.01 PAR VALUE
COMMON STOCK PURCHASE RIGHTS

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(D) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate by check mark if disclosure of delinquent Filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

The aggregate market value of the voting stock held by nonaffiliates of the registrant was approximately $67,550,240 as of August 15, 1994.

On August 15, 1994 there were 16,887,560 shares of Common Stock of the Company outstanding.

The Index to Exhibits is listed on pages 33 and 34 of this Annual Report on Form 10-K.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for Registrant's Annual Meeting of Stockholders to be held on November 10, 1994, (the "Proxy Statement")

PART I

ITEM 1. BUSINESS

GENERAL

Chips & Technologies, Inc., (the "Company" or "CHIPS") was incorporated as a California corporation in December 1984. The Company was subsequently

reincorporated as a Delaware corporation in August 1986. The Company's initial public offering occurred in October 1986. The Company develops and markets very large scale integrated ("VLSI") circuits for the personal computing industry. The Company's products incorporate features and technology that allow its customers to rapidly design and introduce computing systems with compelling combinations of performance and functionality.

The Company's strategy is directed towards timely delivery of cost effective products for the market leaders in the personal computing industry. Throughout fiscal 1994, the Company targeted its efforts at the market leaders in the PC industry. These efforts have resulted in adoption of the Company's products by customers such as IBM, Apple Computer, Hewlett-Packard and NEC Technologies, among others.

The Company focuses its development efforts on the media and core logic portions of the marketplace. The Company's media products provide video functions that support major industry display standards such as VGA & SVGA and address both portable and desktop computing applications. Portable applications generally consist of notebook and sub-notebook computers. Desktop applications are characterized by the traditional CRT video display. The Company's core logic products provide the circuitry that implements the digital pathways of a personal computer and support industry standard bus and processor architectures such as ISA, VL and the X86 series of microprocessors. As part of its core logic portfolio, the Company also provides complementary devices that implement standard communications protocols through serial and parallel ports to allow the interface to the PC of peripheral devices such as disk drives, printers and modems.

During fiscal year 1994, the Company implemented the restructuring programs for which charges were taken in the fourth quarter fiscal 1993. The implementation of the restructuring plans resulted in the discontinuation and sale of 1) the Company's interest in the Russian joint venture operating its system business, 2) its networking business and 3) its future development of stand-alone multimedia technologies. As a result of the restructuring programs, the Company reduced headcount and expenses and consolidated its buildings at its corporate headquarters.

INDUSTRY OVERVIEW

The personal computing industry has rapidly expanded as system manufacturers have continued to provide increasing performance and functionality at lower prices. CHIPS was a pioneer in the development of the personal computing industry, providing many of the technical innovations that allowed the market for IBM-compatible architecture computers to prosper.

CHIPS was an early supplier of VLSI solutions, now called "chipsets", that allowed a variety of manufacturers to rapidly introduce cost effective personal computers compatible with the then emerging IBM AT industry standard architecture. This event simplified the design of the PC and allowed manufacturers to bring products to market without investing large amounts of internal resources in the development of significant portions of the PC electronics.

Many changes have occurred in the industry since its genesis in the 1980's. The majority of PC manufacturers now use independent suppliers to provide core logic and video VLSI solutions. Widespread adoption of this business model has created a large market opportunity that has attracted numerous competitors. The Company faces strong competitive forces in all its product areas and believes its future success will be based upon the following factors: delivery of products with

compelling performance and functionality, rapid development and timely introduction of new products, maintenance of customer relationships with market leading PC manufacturers, obtaining sources of supply at competitive costs and access to advanced semiconductor process technologies. Due to the difficulty and uncertainty of attaining these objectives, no assurances can be made that the Company will be successful in its endeavors in any of these areas.

PRODUCT LINES

MEDIA PRODUCTS

The Company supplies VLSI circuit products that provide video display capabilities for CRT and flat panel displays. The Company's video display controllers are compatible with the IBM VGA graphics standard and support advanced modes such as SVGA that allow a greater number of colors to be displayed at higher levels of resolution. The Company further segregates its business into product families focused on portable display applications and desktop applications.

|_| FLAT PANEL DISPLAY CONTROLLERS

The market for flat panel display controllers has grown rapidly as the popularity of portable computers has increased. The portable computing segment

of the market is the fastest growing portion of the PC industry; and most industry projections estimate that portable computers will comprise an increasingly larger portion of total PC shipments. The most common portable computing devices are the notebook and sub-notebook computers. The majority of these devices use a built-in flat panel display. Advances in the portable computing industry have most recently revolved around improvements in display quality, power consumption and performance. Expected advances in portable computing suggest that portable PCs will eventually have performance and functionality equivalent to the traditional desktop PC.

The Company markets a family of flat panel display controllers that offer different combinations of features and performance to meet the varying requirements of portable PCs. The product family addresses key customer requirements with high component-level integration through the incorporation on chip of a RAMDAC (random access memory digital-to-analog converter) and clock synthesizer, the support of color flat panel displays, low power consumption through 3.3 volt operation and, most recently, GUI acceleration capabilities built into the chip hardware. The Company is currently focusing on the integration of multimedia display functions in order to expand the capabilities of the product. The Company believes that portable computers are evolving into replacements for traditional desktop computers and that this transition will demand greater functionality from the flat panel display controller.

The Company's flat panel controller customers include major PC manufacturers and subcontract manufacturers of notebook and sub-notebook computers. The customer design-in process for a portable computer tends to span a longer period of time and be more complex than that of a desktop PC or peripheral. The Company supports its customers' design process by providing software such as video BIOS (Basic I/O System) and software drivers as well as system development and demonstration boards. The Company provides ongoing technical applications support throughout the customer's design and manufacturing process.

|_| CRT DISPLAY CONTROLLERS

The introduction and overwhelming prevalence of Microsoft(R) Windows(TM) as a graphical user interface ("GUI") software environment for IBM-compatible PCs has driven changes in end user requirements for CRT display capabilities. The graphic features of the Windows environment have been embraced by computer users as an aid to productivity and ease of use. The graphically intensive nature of Windows software has placed additional demands on the electronics of the personal computer. Standard PC VGA graphics display controllers lack the ability to process the more extensive functions of the Windows interface. The computer's microprocessor is burdened with the additional requirement of processing Windows functions, leading to slower video image display and decreased user

productivity. Certain companies recognized this deficiency and added hardware based video acceleration capabilities to the existing graphics display controller, resulting in faster video display processing for Windows and other GUI software applications. GUI accelerator CRT display controllers are the largest segment of the CRT display controller market and are expected to gain a larger share of the total CRT display controller market.

The Company introduced its first single chip GUI accelerator CRT display controller during fiscal 1994. These products offer customers a high performance solution at competitive system level costs through the incorporation in the chip of an innovative technology called XRAM Video Cache(TM) as well as RAMDAC and clock synthesizer circuitry. The Company plans to expand the product family to support emerging bus architectures such as Peripheral Component Interconnect ("PCI") , to utilize 64-bit internal architectures for increased performance and to incorporate multimedia features to address expanding computer user requirements.

The Company's customers for CRT display controllers include personal computer system manufacturers, add-in card makers and motherboard manufacturers. The customer design-in period for CRT display controllers is usually short. The Company supports the customer design process by providing schematics, complete board designs, BIOS system software, application software drivers and development and demonstration boards. The Company also provides ongoing technical support throughout the customers' design and manufacturing periods.

CORE LOGIC PRODUCTS

The primary functions of a personal computer are provided by a circuit board called the motherboard, which generally contains the microprocessor, memory, core logic and other peripheral control devices. The core logic devices control the transfer of digital data within the personal computer by managing the communications among the microprocessor, memory, system bus and peripherals. The microprocessor of an IBM-compatible PC is based on an "X86" architecture, commonly referred to by product family names such as 386, 486 or Pentium(TM). The system bus management function of the core logic device implements the protocols enabling compatibility with industry standard bus interfaces such as Industry Standard Architecture ("ISA"), Video Enhancement Standard Architecture

("VESA") and Peripheral Component Interconnect ("PCI").

The Company's current core logic products consist of devices that support the range of 8086 to 486 processor families. These devices implement their core logic circuitry for the majority of applications in one or two chips. The Company maintains a family of products that complement its core logic devices and implement the peripheral functions on the motherboard, such as serial and parallel communication protocols and disk drive interface control. The Company's core logic products also include an innovative device that combines processor, core logic, graphics display controller and peripheral control functions on a single chip.

The Company is targeting its core logic development efforts in three areas. The first area is the expansion of support for new system bus and microprocessor architectures such as the PCI system bus and the Pentium processor. The second focuses on incorporation of power management technology into the core logic chip that will support the U.S. Government Energy Star guidelines for power consumption. The third involves the integration of communication and peripheral control functions into the core logic device. The Company's customers for core logic devices are primarily PC system manufacturers, motherboard manufacturers and subcontract manufacturers. Its customer base also includes, to a lesser degree, industrial and embedded control application customers. The design-in process for core logic devices is generally much shorter for desktop PCs than for portable PCs due to the simplicity of design and standardization of many of the physical design factors. The Company supports the design process by providing in most cases BIOS software, development and demonstration boards and in many cases schematics and complete board designs. The Company assists its customers throughout the design and manufacturing phases by providing technical applications and design support.

SALES & MARKETING

CHIPS markets and distributes its products through a combination of a direct sales organization, regional distributors and independent manufacturer representatives. In North America, the Company maintains direct sales offices in Georgia, Illinois and at its corporate headquarters in San Jose, California. Additional regional technical support staff operate in Massachusetts and Texas. International sales offices are maintained in Taiwan and the United Kingdom.

Sales to the Company's customers are usually made pursuant to specific purchase orders, which are cancelable or reschedulable within certain time frames, without significant penalty. The Company recognizes sales to all customers except domestic distributors upon shipment of the product. Revenue is recognized upon the distributor resale for the Company's domestic distributors. The Company's distributors are generally allowed to return to the Company a portion of the products purchased by them. The Company maintains reserves for such return allowances.

Sales efforts are focused on the customers' technical and management groups responsible for new system designs. The Company provides direct application engineering support to its customers during the evaluation, design and production stages of the customer's product cycle to assist the customer in the implementation of the Company's products.

The Company's products are utilized by a number of leading personal computer manufacturers including IBM, Apple Computer, AST Research, Dell Computer, NEC Technologies and Hewlett Packard. During fiscal 1994, there were no customers who accounted for more than 10% of the Company's total revenue. The Company is continuing to expand its customer base with key PC system manufacturers. However, the loss of a significant customer or a reduction in such customer's orders and sales could have a material adverse effect on the Company's results of operations.

Export sales were 56%, 48% and 67% of net sales for fiscal years 1994, 1993 & 1992, respectively. The proportion of export sales also reflects the strategy of certain PC system companies to manufacture or subcontract manufacture of their products in foreign countries. Export sales subject the Company to the exposures of international business, including government and foreign trade policies and local economic conditions.

MANUFACTURING

The majority of the Company's products are manufactured using 1.0 and 0.8 micron CMOS process technologies. The Company subcontracts to independent suppliers the manufacture of its products. This strategy enables the Company to avoid the large capital investment and overhead expense associated with a captive semiconductor fabrication facility. Accordingly, the Company can focus on what it believes are its core strengths, namely the design and marketing of its products.

Certain of the Company's vendors deliver fully assembled and tested finished

goods products. In this case, CHIPS purchases finished goods meeting its predetermined specifications. Other vendors provide only the silicon wafers, after which the Company manages the process of assembly and testing through other independent vendors. CHIPS maintains specific quality assurance programs for all vendors and supplies its vendors with detailed semiconductor test programs to verify its products during manufacture. The Company also requires its vendors to manufacture to a detailed set of specifications and parameters prior to accepting delivery of any products from its suppliers. The Company believes it maintains good relationships with its subcontract vendors. The Company also attempts to develop alternate vendor sources for its high volume products to reduce the exposures caused by having a sole source for its products.

RESEARCH & DEVELOPMENT

The Company considers the timely development and introduction of new products to be essential to maintaining its competitive position and capitalizing on market opportunities. Research and development efforts focus on the design of new products and the enhancement of existing ones that will help to maintain or increase the Company's participation in various product areas. At June 30, 1994, the Company had approximately 80 employees engaged in research and development. Spending for research and development during fiscal 1994, 1993 and 1992 was $11.8 million, $22.6 million and $45.7 million, respectively. The decreases in research and development spending from 1992 to 1994 reflect the impact of the Company's restructuring programs that discontinued development efforts on product lines the Company determined were not critical to its future product strategy.

COMPETITION

The markets for the Company's products are characterized by intense competition. The Company expects the level of competition to increase. Competitive factors in the Company's markets include product features, product performance, price, timeliness of new product introductions, quality and customer support. There can be no assurance that the Company will be able to compete effectively in these key areas and be successful relative to its competition. Advances by its competition in any of the areas mentioned may have a material adverse effect on the Company's results of operations.

The Company's competitors consist of both domestic and international companies. Some of these companies own semiconductor fabrication, assembly and test facilities, while others subcontract manufacturing in a way similar to CHIPS. Some competitors have significantly greater financial, technical, marketing, manufacturing and distribution resources than the Company. To the extent these competitors are able to utilize these resources effectively in competing against the Company, there could be an impact on the future operating results of the Company.

FACTORS AFFECTING FUTURE OPERATING RESULTS

The Company's revenues are directly affected by customer demand for its products. Customer demand fluctuates, sometimes dramatically, based on the customers' buildup of internal inventory, seasonal factors, and product transitions, among other things. While the Company makes every effort to be consistently informed of customers' expected demand for its products, customers do from time to time make unexpected changes in product purchasing forecasts and in existing orders. Customer rescheduling, reduction in quantities and cancellations of orders could have a material adverse impact on the Company's revenues and results of operations.

The largest portion of the Company's sales during fiscal 1994 was comprised of flat panel graphics controllers. The Company currently maintains a leading position in this market and anticipates its competition will aggressively price alternative solutions to attempt to capture market position. The Company anticipates revenues from core logic and CRT graphics controllers to increase if, as it expects, it gains additional customers and market share. The core logic and CRT graphics controller businesses tend to have lower gross margins. Therefore, to the extent that the proportion of the Company's revenue from CRT controllers and core logic devices increases and/or the Company encounters aggressive price competition for its flat panel controllers, gross margins achieved in fiscal 1994 may not be sustainable.

The Company believes it is critical to its success to be able to develop complex new products and introduce those products to the marketplace in a timely manner, and that customer design wins and favorable margins depend on the achievement of rapid time to market. In addition the Company must provide appropriate product features and functionality desired by its customers, have its products selected and designed into computer system products of leading personal computer manufacturers and obtain sources of supply for its products at competitive costs. There can be no assurance that the Company will be successful in

achieving these goals. Should the Company not be successful in some or all of these areas, there would be a material adverse effect on the Company's results of operations.

The Company's current operating results are to a large degree influenced by its ability to obtain and maintain design wins for its products. Many of the Company's current customers are leading personal computer manufacturers or their subcontractors. The Company directs its sales, marketing, customer service and technical support efforts primarily at major personal computer system manufacturers and subcontract manufacturers. The competition for the design wins from such personal computer manufacturers is intense. To the extent that the Company is unable to retain existing designs or acquire new design wins for the Company's existing and future products, there could be a material adverse effect on the Company's results of operations.

The Company procures its integrated circuits from various domestic and international suppliers. The Company's reliance on subcontract vendors for manufacture of its products presents risks including the lack of guaranteed production capacity, delays in delivery, reduced control over production costs and restrictions on availability of certain advanced process technologies. Because most of the Company's production is met through subcontractors located throughout Asia, the Company is also subject to risks beyond its control related to international trade policies and political and economic changes in foreign governments. The Company currently has no commitments that are binding on these subcontractors beyond the period of outstanding purchase orders placed on these suppliers. The Company attempts to mitigate the risks associated with its subcontract vendors by maintaining favorable vendor relationships and developing alternate sources of supply for high volume products. However, there can be no assurances made that the Company will obtain sufficient timely supply of its products to meet customer demand. A disruption in supply, inability to obtain sufficient supply or restrictions on access to certain advanced semiconductor process technologies could have a materially adverse effect on the Company's operating results.

Because the Company uses subcontract vendors for the manufacture of its products, the Company must place orders with its suppliers far in advance of shipment to its end customers. The Company uses projections of future end customer shipments to determine inventory purchase requirements. The Company's products are subject to rapid technological change, intense competition and generally have short life cycles. These factors often are manifested in rapid increases or declines in product sales over a short period of time. The Company attempts to identify and react to anticipated changes quickly but due to the rapid rate of change, the Company may not be able to accurately forecast or react in a timely manner to changes in customer demand for its products. Future operating results could be adversely affected if the company is not able to anticipate its inventory supply requirements and as a result generates excess or insufficient product inventories.

The personal computer industry is subject to certain seasonal fluctuations. It is acknowledged within both the computer and semiconductor industries that sales and purchases may vary significantly within a particular quarterly or annual period. To the extent that seasonal fluctuations occur, they may cause volatility in operating results for a particular period and could have material effect on future operating results. Due to fluctuations in the Company's customers orders in a particular period, historical results of the Company may not be indicative of future operating results.

LICENSES, PATENTS AND TRADEMARKS

The Company attempts to protect its proprietary technology through the filing of patents and by the use of copyright, maskwork and trade secret protection and trademarks. The Company has been granted 59 patents covering various technical innovations. The Company also has 43 pending patent applications, including 2 in which a notice of allowance has issued. The Company intends to continue to build and protect its intellectual property portfolio.

The semiconductor industry is characterized by frequent litigation regarding patents and other intellectual property rights. There can be no assurance that third parties will not assert claims against the Company related to current and

future products. In the event of such litigation, significant financial expense and diversion of key technical and management personnel resources could occur. Should there be an adverse result in any litigation proceeding, the Company could be required to expend significant resources to develop non-infringing technology, obtain licenses or provide financial compensation. The unfavorable outcome of litigation against the Company could have a materially adverse impact on the Company's results of operations.

BACKLOG

The Company participates in an industry that is subject to short order and

shipment lead times. The Company's customers may change or cancel order and shipment schedules within certain periods with minimal penalties. In light of these factors, the Company does not consider backlog to be a reliable or meaningful indicator of the Company's operating results.

EMPLOYEES

As of June 30, 1994 the Company had 184 employees, of whom 80 were engaged in research and development, 56 in marketing and sales, 28 in manufacturing and 20 in administration and finance. The Company's future success will depend, in part, on its ability to attract and retain highly qualified personnel. None of the Company's employees is represented by collective bargaining agreements and the Company has never experienced a work stoppage. The Company believes its employee relations are good.

ITEM 2. PROPERTIES

The Company's corporate headquarters are located at 2950 Zanker Road in San Jose, California. The Company owns the land and the 170,000 square foot building on the site. The Company also owns two adjacent undeveloped lots located at 2833 and 2841 Zanker Road in San Jose, California.

The Company leases office space for its regional direct sales offices domestically in Georgia and Illinois and internationally in Taiwan and the United Kingdom.

During fiscal 1994, the Company vacated three leased office facilities near its corporate headquarters as part of its previously announced restructuring program. The termination and settlement of the building lease agreements were achieved during the first quarter of fiscal 1994.

The Company believes its facilities to be fully utilized and adequate for the Company's current operations. However, future changes in the Company and its personnel needs may affect the adequacy of the current facilities.

ITEM 3. LEGAL PROCEEDINGS

None

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

None

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company and their ages are as follows:

James F. Stafford	50	President and Chief Executive Officer
Keith A. Angelo	38	Vice President, Marketing
Lee J. Barker	49	Vice President, Operations
Timothy R. Christoffersen	52	Vice President, Finance and Chief Financial Officer
Richard E. Christopher	47	Vice President, Sales
Scott E. Cutler	42	Vice President, Software Technology
Morris E. Jones, Jr.	42	Senior Vice President and Chief Technical Officer
Lawrence A. Roffelsen	49	Vice President, Engineering
Jeffery Anne Tatum	44	Vice President and General Counsel

Mr. Stafford was elected to the Board of Directors on August 6, 1993 and was named President and Chief Executive Officer on July 28, 1993. Previously he had served as Senior Vice President and Chief Operating Officer from January 1992 to July 1993, as Senior Vice President, Product Line Operations from February 1990 to January 1992, as Vice President, Product Line Operations from July 1989 to February 1990, as Vice President, Operations from December 1985 to July 1989 and as Director of Operations from January 1985 to December 1985. From February 1981 to December 1984, he served as Director of Materials at Seeq Technology, Inc.

Mr. Angelo was promoted to Vice President, Marketing in November, 1992. Previously, Mr. Angelo had served as General Manager, Media Group, from April 1992 to November 1992, as Director of Marketing from January 1991 to April 1992, as Marketing Manager from January 1989 to January 1991 and as Product Manager in

the Graphics group from October 1987 to January 1989. Prior to joining the Company, Mr. Angelo spent four years at Intel Corporation in various marketing positions in the Peripheral Component Group. Prior to joining Intel, Mr. Angelo worked for a year at Randtronics.

Mr. Barker has served as Vice President, Operations since July 1992. Prior to joining the Company, he was self employed for twelve years as a manufacturer of electronic scoreboards and a supplier of raw materials to the sign industry. From 1975 to 1979, Mr. Barker was the Corporate Director of Material for Excel Industries.

Mr. Christoffersen has served as Chief Financial Officer since January 1994. Prior to joining the Company, Mr. Christoffersen spent two years with Resonex Inc., as Executive Vice President, Director, Chief Financial Officer, and later Chief Operating Officer. Prior to joining Resonex, he spent 9 years with several subsidiaries of Ford Motor Company in various managerial and financial positions.

Mr. Christopher has served as Vice President, Sales, since July, 1992. Prior to joining the Company, Mr. Christopher spent twelve years at Fujitsu Microelectronics where he became Senior Vice President and General Manager. Prior to joining Fujitsu Microelectronics, Mr. Christopher spent two years at Harris Semiconductor as the Central Area Sales Manager. Prior to joining Harris Semiconductor, Mr. Christopher served in various sales and marketing positions at Fairchild Semiconductor.

Mr. Cutler has served as Vice President, Software Technology, since March, 1990. Prior to joining the Company, Mr. Cutler spent six years at Tandy Computers as Vice President, Software Design, and in various software managerial positions. Prior to joining Tandy Computers, Mr. Cutler spent eight years at General

Electric in its Corporate Research and Development laboratory in various managerial and technical positions.

Mr. Jones, Jr. is a founder of the Company and has served as Senior Vice President and Chief Technical Officer since February 1990, as Vice President, Advanced Products and Chief Technical Officer from January 1989 to February 1990, as Chief Technical Officer from March 1987 to January 1989, as Vice President, Computer Aided Engineering from December 1985 to March 1987, and as Director of Computer Aided Engineering from December 1984 to December 1985. From August 1984 to December 1984, he served as Manager of Computer Aided Engineering at Seeq Technology, Inc. From May 1978 to August 1984, he served as Principal Engineer at Amdahl Corporation, a mainframe computer manufacturer.

Mr. Roffelsen has served as Vice President, Engineering since November 1992. Prior to joining the Company, he spent three years at Fujitsu Microelectronics, Inc., where he served most recently as Vice President, ASIC Operations. Prior to joining Fujitsu, he spent ten years with ITT Aerospace/Optical Division where he served in several managerial positions.

Ms. Tatum has served as Vice President and General Counsel since July, 1994. She previously served as General Counsel from August, 1993 to July 1994, and as Assistant General Counsel from February 1992 to August 1993. Prior to joining the Company, she was a partner of the law firms of Seyfarth, Shaw, Fairweather and Geraldson from 1990 to 1992, and of Adams, Duque and Hazeltine from 1985 to 1989.

PART II

ITEM 5. MARKET FOR REGISTRANTS COMMON EQUITY & RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

The Company's Common Stock has been traded in the over-the-counter market under the symbol "CHPS" since October 8, 1986 and on the NASDAQ National Market System since October 21, 1986. The following table sets forth high and low closing sale prices for the Common Stock as reported by National Quotation Bureau, Inc.

	Fiscal 1994		Fiscal 1993	
	High	Low	High	Low
First Quarter	$6.00	$3.75	$6.75	$3.25
Second Quarter	6.95	4.875	5.375	3.50
Third Quarter	7.375	5.00	5.125	3.125
Fourth Quarter	5.75	3.75	4.50	2.875

The Company's present policy is to reinvest earnings in future operations. The Company has not paid and does not anticipate paying cash dividends in the foreseeable future. At July 31, 1994 there were 16,887,560 shares of Common Stock outstanding, held by approximately 1,184 stockholders of record.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

In thousands except per share amounts	SELECTED DATA Year ended June 30, 1994	1993	1992	1991	1990
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$73,444	$97,874	$141,106	$225,088	$293,401
Gross margin	26,480	24,725	16,961	82,496	132,256
Income (loss) from operations	(1,077)	(52,654)	(84,676)	(19,093)	40,505
Net income (loss)	2,714	(49,055)	(63,873)	(9,624)	29,298
Net income (loss) per share	0.16	(3.13)	(4.46)	(0.71)	1.88
Total assets	54,620	64,806	118,872	158,521	201,754
Long-term capital lease and notes payable	1,019	1,009	3,835	6,841	8,575
Convertible debentures	7,910	7,910	-	-	-
Stockholders' equity	26,327	19,677	65,327	114,459	133,966

QUARTERLY FINANCIAL DATA (UNAUDITED)

In thousands except per share amounts	Three months ended June 30, 1994	March 31, 1994	Dec. 31, 1993	Sept. 30, 1993
<S>	<C>	<C>	<C>	<C>
Net sales	$15,393	$14,442	$22,438	$21,171
Gross margin	4,871	5,173	8,378	8,058
Restructuring charges (recovery)	-	(372)	-	-
Income (loss) from operations	(971)	(909)	791	12
Net income	1,525	147	720	322
Net income per share	0.09	0.01	0.04	0.02

	Three months ended June 30, 1993	March 31, 1993	Dec. 31, 1992	Sept. 30, 1992
<S>	<C>	<C>	<C>	<C>
Net sales	$21,530	$21,611	$28,415	$26,318
Gross margin	7,411	6,494	3,050	7,770
Restructuring charges	6,233	-	17,038	-
Loss from operations	(9,528)	(4,124)	(28,883)	(10,119)
Net loss	(9,353)	(4,093)	(25,883)	(9,726)
Net loss per share	(0.59)	(0.26)	(1.67)	(0.63)

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

OVERVIEW

The Company's net income for fiscal 1994 was $2.7 million or $0.16 per share. Net income for fiscal 1994 includes a reduction in previously provided taxes of $2.2 million related to the resolution of various tax matters. The Company's operating loss for fiscal 1994 was $1.1 million. During fiscal 1994, the Company made substantial progress in implementing the restructuring programs begun in fiscal 1993. The Company achieved operating cost reductions and focused on its strategic business areas through the implementation of restructuring programs, including building consolidations and the discontinuation of certain product lines that were inconsistent with the Company's strategic plans.

NET SALES

Net sales for fiscal 1994 were $73.4 million, a decrease from sales of $97.9 million in fiscal 1993 and $141.1 million in fiscal 1992. Net sales declined in fiscal 1994 as compared to fiscal 1993 due to discontinuation of the Company's systems business and a reduction in the unit sales volume of mature core logic and processor products. This decline was partially offset by an increase in unit

sales volume of graphics products during fiscal 1994. The net sales decline in fiscal 1993, compared to fiscal 1992, was primarily due to a reduction in both unit volumes and average selling prices for the Company's products, particularly core logic devices. The majority of the Company's sales are derived from graphics controller products. The Company has targeted its sales and marketing efforts at major PC manufacturers and has obtained numerous design wins from these customers. The Company believes it is positioned favorably to capitalize on the increasing consolidation within the PC industry as major PC manufacturers increase their market share and influence within the PC market.

Export sales are sales made to foreign customers and to the overseas manufacturing facilities of domestic customers. Export sales were 56%, 48% and 67% of net sales for fiscal years 1994, 1993 and 1992, respectively. Sales to foreign customers are denominated in US dollars. During fiscal 1994 and 1993 there were no customers who accounted for greater than 10% of the Company's sales. During fiscal 1992, two of the Company's distributors, Gain Tune, Ltd. and Ally, Inc./Creative Model Ltd. accounted for 15% and 11%, respectively, of the Company's sales.

GROSS MARGIN

The gross margin percentage was approximately 36% in fiscal 1994 compared to 25% in fiscal 1993 and 12% in fiscal 1992. Gross margins have improved in fiscal 1994 as the Company's mix of product shifted favorably towards a greater proportion of flat panel graphics controllers. Other factors causing the improvement in gross margins in fiscal 1994 as compared to fiscal 1993 are reduced manufacturing costs and lower inventory obsolescence. Gross margins improved in fiscal 1993 compared to fiscal 1992 primarily from a reduction in inventory obsolescence.

RESEARCH AND DEVELOPMENT EXPENSES

R&D expenses were $11.8 million, $22.6 million and $45.7 million in fiscal years 1994, 1993 and 1992, respectively. R&D expenditures have decreased each year generally as a result of restructuring programs to implement the Company's focus on fewer key product areas. The decrease in fiscal 1994 from fiscal 1993 and the decrease in fiscal 1993 from fiscal 1992 are primarily attributable to lower headcount and fewer and more focused product development projects. During the first quarter of fiscal 1994, the Company discontinued its systems and networking businesses as well as future development of stand-alone multi-media

products. During fiscal 1993, the Company discontinued its stand-alone microprocessor and multi-processor product development.

SALES & MARKETING EXPENSES

Sales and Marketing expenses were $10.9 million in fiscal 1994, $20.2 million in fiscal 1993 and $31.9 million in fiscal 1992. The decline in Sales & Marketing expenses in fiscal 1994 as compared to fiscal 1993 is primarily due to reduction in headcount costs as a result of the Company's strategy of targeting major PC system manufacturers and restructuring to focus on core product technologies. The decline from fiscal 1993 to fiscal 1992 is due mainly to reductions in headcount expenses and sales commissions resulting from lower revenue levels.

GENERAL AND ADMINISTRATIVE EXPENSES

General and Administrative expenses were $5.2 million, $11.3 million and $14.9 million in fiscal years 1994, 1993 and 1992 respectively. The reduction in expenses in fiscal 1994 compared to fiscal 1993 is due to reductions in headcount and outside legal services. G&A expenses decreased in fiscal 1993 compared to fiscal 1992 primarily from lower outside legal fees resulting from reduced litigation activity.

RESTRUCTURING COSTS

Restructuring costs of $23.3 million and $9.1 million were recorded in fiscal 1993 and 1992, respectively. These restructuring charges related to reserves for discontinuation of certain product lines, facility consolidations and employee severance as well as reductions in the value of goodwill and purchased technology. In fiscal 1994, the Company received the first of four scheduled payments of $0.4 million against a note receivable recorded in respect of the sale of the Company's discontinued product lines consisting of its system business, networking products and future development of stand-alone multimedia products. The carrying value of these discontinued product lines was reserved as part of the restructuring charge recorded in fiscal 1993. The Company maintains no influence or control over the operations of the divested businesses and technologies and no assurances can be made that future payments will be received in respect of the note receivable. Accordingly, the Company records income on the sale of these product lines as cash is collected on the note. The Company believes that its remaining restructuring reserve is adequate for completion of its restructuring programs, which are required primarily to cover the final costs related to the consolidation of operations. However, there can be no assurance that the Company will not need additional restructuring provisions in

the future.

INTEREST INCOME (EXPENSE) NET AND OTHER INCOME (EXPENSE) NET

Other income including interest income was $1.7 million in fiscal 1994 compared to income of $3.6 million in fiscal 1993 and $0.9 million in fiscal 1992. Fiscal 1994 other income includes $0.9 million from the sale of investments. Fiscal 1993 other income consisted mainly of cash received in settlement of litigation.

INCOME TAXES

In the fourth quarter fiscal 1994, the Company resolved a number of tax issues and as a result, recorded a tax benefit of $2.2 million related to taxes which were previously provided for these issues. The Company recorded no tax benefit in fiscal 1993 compared to a tax benefit of $19.9 million in fiscal 1992. Financial Accounting Standard No. 109 "Accounting for Income Taxes," has been applied for all periods presented and a valuation allowance has been established for any deferred tax assets for which realization is not reasonably assured.

LIQUIDITY AND CAPITAL RESOURCES

During fiscal 1994, $6.7 million of cash, cash equivalents and short term investments were used in the operating, financing and investing activities of the Company, compared to generation of $5.0 million in fiscal 1993 and usage of $23.4 million in fiscal 1992. The usage of cash in fiscal 1994 is primarily the result of execution of the restructuring plans announced in early fiscal 1994, consisting of payments made for settlement of lease obligations and employee severance. During fiscal 1993, $6.6 million of cash was generated mainly due to the receipt of a federal tax refund of $28.3 million and proceeds of a subordinated debt offering of $10.3 million, offset by cash consumed by operations.

Cash, cash equivalents and short term investments were $22.5 million at June 30, 1994, a decrease of $6.7 million, compared to $29.2 million at June 30, 1993. For the same periods, accounts receivable increased $1.5 million and inventory increased $0.6 million while current liabilities decreased $16.8 million. Accounts receivable increased mainly from increased sales at the end of the fourth quarter of fiscal 1994 as compared to fiscal 1993. Inventory increases were due to the higher levels of inventory maintained for flat panel graphics controller products. The decrease in current liabilities was largely due to the payout of accrued restructuring costs and the reduction of accrued tax liabilities.

The Company's capital requirements consist primarily of financing working capital items and funding operational activities. The Company has two line of credit agreements allowing borrowing up to $13.0 million at the bank reference rates. Both agreements expire in October 1995 and there were no borrowings outstanding against these lines at June 30, 1994 and June 30, 1993. The existing line of credit agreements require that the Company meet certain covenants related to financial performance and condition. The Company also anticipates obtaining additional credit facilities for the purpose of financing certain capital equipment purchases. Based on current levels of working capital and available borrowing capacity, the Company believes that its present capital resources are sufficient to meet its needs for the next fiscal year.

FACTORS AFFECTING FUTURE OPERATING RESULTS

The Company anticipates its sales increasing sequentially over the first and second quarters. The Company's revenues are directly affected by customer demand for its products. Customer demand fluctuates, sometimes dramatically, based on the customers' buildup of internal inventory, seasonal factors, and product transitions, among other things. While the Company makes every effort to be consistently informed of customers' expected demand for its products, customers do from time to time make unexpected changes in product purchasing forecasts and in existing orders. Customer rescheduling, reduction in quantities and cancellations of orders could have a material adverse impact on the Company's revenues and results of operations.

The largest portion of the Company's sales during fiscal 1994 was comprised of flat panel graphics controllers. The Company currently maintains a leading position in this market and anticipates its competition will aggressively price alternative solutions to attempt to capture market position. The Company anticipates revenues from core logic and CRT graphics controllers to increase if, as it expects, it gains additional customers and market share. The core logic and CRT graphics controller businesses tend to have lower gross margins. Therefore, to the extent that the proportion of the Company's revenue from CRT controllers and core logic devices increases and/or the Company encounters aggressive price competition for its flat panel controllers, gross margins achieved in fiscal 1994 may not be sustainable. The Company anticipates its future operating expenses, including research and development expenses, will increase in absolute amounts as compared to fiscal 1994. However, the Company believes the rate of increase will be smaller than the rate of revenue growth.

The Company believes it is critical to its success to be able to develop complex new products and introduce those products to the marketplace in a timely manner, and that customer design wins and favorable margins depend on the achievement of rapid time to market. In addition the Company must provide appropriate product features and functionality desired by its customers, have its products selected

and designed into computer system products of leading personal computer manufacturers and obtain sources of supply for its products at competitive costs. There can be no assurance that the Company will be successful in achieving these goals. Should the Company not be successful in some or all of these areas, there would be a material adverse effect on the Company's results of operations.

The Company's current operating results are to a large degree influenced by its ability to obtain and maintain design wins for its products. Many of the Company's current customers are leading personal computer manufacturers or their subcontractors. The Company directs its sales, marketing, customer service and technical support efforts primarily at major personal computer system manufacturers and subcontract manufacturers. The competition for the design wins from such personal computer manufacturers is intense. To the extent that the Company is unable to retain existing designs or acquire new design wins for the Company's existing and future products, there could be a material adverse effect on the Company's results of operations.

The Company procures its integrated circuits from various domestic and international suppliers. The Company's reliance on subcontract vendors for manufacture of its products presents risks including the lack of guaranteed production capacity, delays in delivery, reduced control over production costs and restrictions on availability of certain advanced process technologies. Because most of the Company's production is met through subcontractors located throughout Asia, the Company is also subject to risks beyond its control related to international trade policies and political and economic changes in foreign governments. The Company currently has no commitments that are binding on these subcontractors beyond the period of outstanding purchase orders placed on these suppliers. The Company attempts to mitigate the risks associated with its subcontract vendors by maintaining favorable vendor relationships and developing alternate sources of supply for high volume products. However, there can be no assurances made that the Company will obtain sufficient timely supply of its products to meet customer demand. A disruption in supply, inability to obtain sufficient supply or restrictions on access to certain advanced semiconductor process technologies could have a materially adverse effect on the Company's operating results.

Because the Company uses subcontract vendors for the manufacture of its products, the Company must place orders with its suppliers far in advance of shipment to its end customers. The Company uses projections of future end customer shipments to determine inventory purchase requirements. The Company's products are subject to rapid technological change, intense competition and generally have short life cycles. These factors often are manifested in rapid increases or declines in product sales over a short period of time. The Company attempts to identify and react to anticipated changes quickly but due to the rapid rate of change, the Company may not be able to accurately forecast or react in a timely manner to changes in customer demand for its products. Future operating results could be adversely affected if the company is not able to anticipate its inventory supply requirements and as a result generates excess or insufficient product inventories.

The personal computer industry is subject to certain seasonal fluctuations. It is acknowledged within both the computer and semiconductor industries that sales and purchases may vary significantly within a particular quarterly or annual period. To the extent that seasonal fluctuations occur, they may cause volatility in operating results for a particular period and could have material effect on future operating results. Due to fluctuations in the Company's customers orders in a particular period, historical results of the Company may not be indicative of future operating results.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Chips and Technologies, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flow present fairly, in all material respects, the financial position of Chips and Technologies, Inc. and its subsidiaries at June 30, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1994, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company'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 generally accepted auditing standards 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 the opinion expressed above.

/S/ PRICE WATERHOUSE LLP
- --------------------------
Price Waterhouse LLP
San Jose, California

July 21, 1994

<TABLE>

CONSOLIDATED STATEMENTS OF OPERATIONS

<CAPTION>

In thousands except per share amounts	Year ended June 30, 1994	1993	1992
<S>	<C>	<C>	<C>
Net sales	$73,444	$97,874	$141,106
Cost of sales and other manufacturing expenses	46,964	73,149	124,145
Gross margin	26,480	24,725	16,961
Operating expenses			
Research and development	11,793	22,633	45,739
Marketing and selling	10,946	20,164	31,901
General and administrative	5,190	11,311	14,866
Restructuring costs	(372)	23,271	9,131
Total operating expenses	27,557	77,379	101,637
Loss from operations	(1,077)	(52,654)	(84,676)
Interest income and other, net	1,735	3,599	916
Income (loss) before taxes	658	(49,055)	(83,760)
Benefit for income taxes	2,056	0	19,887
Net Income (loss)	$2,714	($49,055)	($63,873)
Net income (loss) per share	$0.16	($3.13)	($4.46)
Weighted average number of common shares and dilutive share equivalents outstanding	16,623	15,650	14,332

<FN>
See accompanying notes to consolidated financial statements
</TABLE>

<TABLE>

CONSOLIDATED BALANCE SHEETS

<CAPTION>

Dollars in thousands except share amounts	June 30, 1994	1993
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents	$17,372	$20,742
Short-term investments	5,171	8,436
Accounts receivable, net of allowance for doubtful accounts of $1,269 and $1,463, respectively	11,757	10,287
Inventory	5,845	5,244
Prepaid and other assets	3,100	5,401
Total current assets	43,245	50,110
Property and equipment, net	10,325	13,059
Other assets	1,050	1,637
Total assets	$54,620	$64,806
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$7,081	$6,889
Current capital lease obligations	571	3,410
Accrued compensation	1,567	1,724
Accrued liabilities to manufacturers representatives	2,209	2,218
Other accrued liabilities	4,733	6,613
Deferred gross profit	1,661	1,581
Accrued restructuring costs	1,542	13,775
Total current liabilities	19,364	36,210
Long-term capital lease obligations	100	1,009
Noncurrent notes payable	919	0
Convertible debentures	7,910	7,910
Total liabilities	28,293	45,129
Commitments (Note 3)		
Stockholders' equity:		
Convertible preferred stock, $.01 par value; 5,000,000 shares authorized; 123,000 shares issued and outstanding	1	1
Common stock, $.01 par value; 100,000,000 shares authorized; 16,881,000 and 16,074,000 shares issued	169	160
Capital in excess of par value	59,222	55,329
Notes receivable from officers	0	(34)
Retained deficit	(33,065)	(35,779)
Total stockholders' equity	26,327	19,677
Total liabilities & stockholders' equity	$54,620	$64,806

<FN>

See accompanying notes to consolidated financial statements

</TABLE>

<TABLE>

CONSOLIDATED STATEMENTS OF CASH FLOW

<CAPTION>

In thousands	Year ended June 30, 1994	1993	1992
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net Income (loss)	$2,714	($49,055)	($63,873)
Adjustments to cash provided by (used for) operating activities:			
Depreciation and amortization	3,414	8,553	12,169
Provision for losses on accounts receivable	676	1,079	457
Provision for losses on inventory	1,228	9,242	24,011

(Gain) loss on sale of fixed assets and investment	(956)	50	(294)
Other	(1)	106	294
Changes in operating assets and liabilities:			
Accounts receivable	(1,583)	11,481	10,642
Inventory	(2,734)	481	(7,120)
Income taxes refundable	0	28,261	(19,983)
Accounts payable	139	(12,782)	3,585
Other assets and liabilities	(517)	(11,368)	5,247
Accrued restructuring costs	(10,749)	23,271	9,131
Net cash provided by (used for) operating activities	(8,369)	9,319	(25,734)
Cash flows from investing activities:			
Capital expenditures	(1,672)	(718)	(2,503)
Sale (Purchase) of short-term investments	3,265	(8,436)	0
Proceeds from sale of investments and fixed assets	3,473	1,067	419
Net cash provided by (used for) investing activities	5,066	(8,087)	(2,084)
Cash flows from financing activities:			
Principal payments for capital lease obligations	(3,748)	(5,656)	(7,418)
Proceeds from issuance of subordinated debt	0	10,280	0
Proceeds from issuance of stock	3,646	697	4,538
Treasury stock issued	0	0	7,126
Repayments of officer loans	35	14	144
Net cash provided by (used for) financing activities	(67)	5,335	4,390
Net increase (decrease) in cash and cash equivalents	(3,370)	6,567	(23,428)
Cash and cash equivalents at beginning of year	20,742	14,175	37,603
Cash and cash equivalents at end of year	$17,372	$20,742	$14,175
Supplemental cash flow information: Cash paid during the period for:			
Interest	$1,002	$1,638	$1,512
Income taxes	39	247	1,319
Tax benefit related to shares purchased under option	0	0	2,639
Additions under capital lease obligations	0	781	3,140

<FN>

See accompanying notes to consolidated financial statements

</TABLE>

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

In thousands

	CONVERTIBLE PREFERRED		COMMON STOCK		CAPITAL IN EXCESS OF PAR VALUE	TREASURY STOCK		NOTES RECEIVABLE FROM	RETAINED	
	SHARES	PAR VALUE	SHARES	PAR VALUE		SHARES	COST	OFFICERS	EARNINGS	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT JUNE 30, 1991	-	$0	14,721	$147	$44,681	1,277	($11,226)	($392)	$81,249	$114,459
SHARES OF COMMON ISSUED UPON EXERCISE OF:										
OPTIONS, PLUS ACCRUED INTEREST			656	6	3,601	(1,104)	9,302	(24)	(3,250)	9,635
EMPLOYEE STOCK PURCHASE PLAN			156	2	929	(173)	1,924		(850)	2,005
REPAYMENT OF LOANS FROM OFFICERS								144		144
COMPENSATION RELATED TO NON-QUALIFIED STOCK OPTIONS NET OF UNEARNED PROTON OF $250					318					318
TAX BENEFIT RELATED TO SHARES PURCHASED UNDER OPTION					2,639					2,639
NET LOSS FOR THE YEAR									(63,873)	(63,873)
BALANCE AT JUNE 30, 1992	-	0	15,533	155	52,168	0	0	(272)	13,276	65,327
SHARES OF COMMON ISSUED UPON EXERCISE OF:										

OPTIONS, PLUS ACCRUED INTEREST			12		58			(24)		34
EMPLOYEE STOCK PURCHASE PLAN			141	1	506					507
REPAYMENT OF LOANS FROM OFFICERS								262		262
COMMON STOCK WARRANTS					102					102
CONVERSION OF CONVERTIBLE SUBORDINATED DEBENTURES INTO SERIES A PREFERRED STOCK	511	5			2,365					2,370
CONVERSION OF SERIES A PREFERRED STOCK INTO COMMON STOCK	(388)	(4)	388	4						
COMPENSATION RELATED TO NON-QUALIFIED STOCK OPTIONS					130					130
NET LOSS FOR THE YEAR									(49,055)	(49,055)
BALANCE AT JUNE 30, 1993	123	1	16,074	160	55,329	0	0	(34)	(35,779)	19,677
SHARES OF COMMON ISSUED UPON EXERCISE OF:										0
OPTIONS, PLUS ACCRUED INTEREST			701	7	3,426					3,433
EMPLOYEE STOCK PURCHASE PLAN			56	1	211					213
SHARES ISSUED FOR BUILDING LEASE SETTLEMENT			50	1	256					256
REPAYMENT OF LOANS FROM OFFICERS								34		34
NET INCOME FOR THE YEAR									2,714	2,714
BALANCE AT JUNE 30, 1994	123	$1	16,881	$169	$59,222	-	$ -	$ -	($33,065)	$26,327

<FN>
See accompanying notes to consolidated financial statements

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF BUSINESS Chips and Technologies, Inc. (the "Company") develops and markets very large scale integrated ("VLSI") circuits for the personal computer industry. The Company was incorporated in California in December 1984 and was reincorporated in Delaware in August 1986. The Company's principal operations are conducted in the United States.

Export sales, principally to Asia, are sales made to foreign customers and to the overseas manufacturing facilities of domestic customers. Export sales were 56%, 48% and 67% of net sales for fiscal years 1994, 1993 and 1992, respectively. Foreign currency transaction gains and losses are included in results of operations and were not significant in the periods presented.

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS The Company considers all highly liquid debt instruments with maturities of three or fewer months at the time of purchase to be cash equivalents. Cash equivalents and Short-term investments consist primarily of commercial paper and government obligations and are recorded at cost, which approximates market value. The Company's financial instruments are with high quality investments and institutions. This diversification of risk is consistent with company policy to maintain liquidity and ensure the safety of principal. Cash equivalents of $0.3 million are pledged against certain equipment leases and have restrictions as to usage. The Company will adopt Statement of Financial Accounting Standards No. 115. "Accounting for Certain Investments Debt and Equity Securities" (FAS 115) beginning in fiscal 1995. Adoption of FAS 115 is not expected to have a material effect on the Company's consolidated financial statements.

INVENTORY Inventory, comprising finished goods, is stated at the lower of cost or market. Cost is determined based on acquisition cost utilizing the first-in, first-out method and appropriate reserves are established for slow moving and discontinued products.

PROPERTY AND EQUIPMENT Property and equipment are stated at cost. Depreciation is computed using the straight-line method with estimated useful life of three to five years for furniture and equipment; five to 30 years for building and improvements. Equipment under capitalized leases is amortized over its useful life.

REVENUE RECOGNITION Revenue from product sales to customers other than domestic distributors is recognized upon shipment and reserves are provided for estimated returns. Sales to distributors are generally subject to agreements allowing certain rights of return and price protection with respect to unsold merchandise

held by the distributor. The Company defers recognition of revenue and related gross margin on sales to domestic distributors until the product is sold by these distributors.

NET INCOME (LOSS) PER SHARE Net income (loss) per share is computed using the weighted average number of common shares and dilutive common share equivalents outstanding during the respective periods.

INCOME TAXES Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and the amounts reported for financial reporting purposes, for all periods presented.

CONCENTRATION OF CREDIT RISK The Company believes that the concentration of credit risk in its trade receivables is substantially mitigated by the Company's credit evaluation process, relatively short collection terms, distributor agreements, and the geographical dispersion of sales.

NOTE 2 PROPERTY & EQUIPMENT :

	Year Ended June 30, 1994	1993
Computers	$8,541	$19,750
Furniture & Equipment	8,173	14,193
Purchased Computer Software	9,138	8,901
Building & Building Improvements	5,196	5,100
Land	2,909	2,909
Leasehold Improvements	210	443
	34,167	51,296
Accumulated Depreciation & Amortization	(23,842)	(38,237)
Property and Equipment Net	$10,325	$13,059

At June 30, 1994 and June 30, 1993 assets under capitalized leases (Note 3) had values of $2.1 million and $14.9 million, respectively, less accumulated amortization of $1.8 million and $10.2 million, respectively. Amortization of equipment under capitalized leases is included as part of depreciation and amortization expense.

NOTE 3 COMMITMENTS AND CONTINGENCIES:

The Company leases certain property and equipment under capital leases and various other equipment under non-cancelable operating leases. The Company has future minimum lease payments under capital leases of $725,000 due through 1996 and payments under operating leases of $231,000 due through 1999. The present value of the capital lease obligations aggregates to $671,000 of which $571,000 is due within 12 months. Rent expense for operating leases totaled $0.5 million, $2.8 million and $4.0 million for the fiscal years ended 1994, 1993 and 1992, respectively.

On September 16, 1993, the company entered into a settlement agreement to terminate the long-term leases for the buildings previously occupied at the Company's headquarters. (See note 8)

The Company has two line of credit agreements allowing borrowing up to $13.0 million at the bank reference rates. Both agreements expire in October 1995 and there were no borrowings outstanding against these lines at June 30, 1994. The Company has outstanding standby letters of credit of $2.3 million securing inventory purchases with certain vendors.

NOTE 4 SUBORDINATED DEBENTURES:

On July 16, 1992, the Company issued $10.3 million of 8.5% Convertible Promissory Notes (the "Notes") due June 30, 1997. In May 1993, the principal amount of $2.4 million of the Notes was converted into 510,776 shares of Series A Convertible Preferred Stock (the "Preferred") of which 387,931 shares were immediately converted into the same number of shares of common stock. The remaining principal amount of $7.9 million of the Notes was converted into 8.5% Convertible Subordinated Debentures due June 30, 2002 (the "Debentures"). Interest on the Debentures is payable semiannually. The principal amount is convertible into common stock at $5.70 per share. The Company has the right to redeem the Debentures beginning June 30, 1995. However, the Company may be required by the holders to redeem the Debentures prior to June 30, 1995 if the Company does not satisfy certain conditions during a merger, consolidation, or sale of substantially all of its assets or if the Company does not meet certain net worth covenants. The Debentures are subordinated to the Company's capitalized lease obligations, trade credit and any indebtedness resulting from utilization of any lines of credit with commercial lenders. The Company has reserved 2.2 million shares of common stock for issuance upon conversion of the

Debentures.

NOTE 5 EMPLOYEE BENEFIT PLANS:

QUALIFIED INVESTMENT PLAN

In January 1987, the Company adopted a Section 401(k) Plan (the Plan) which allows participants to contribute up to 15% of eligible earnings to the Plan. The Plan permits discretionary matching contributions by the Company on behalf of the participant. Matching contributions were made by the Company and amounted to $32,000, $91,000 and $313,000 in fiscal 1994, fiscal 1993 and fiscal 1992, respectively.

EMPLOYEE STOCK PURCHASE PLAN

The Company has reserved 1.5 million shares of common stock for issuance pursuant to an Employee Stock Purchase Plan adopted in 1986 (the Purchase Plan). The Purchase Plan allows qualified employees to purchase shares of Common Stock at a price equal to the lower of the fair market value at the beginning or ending of each 6 month purchase period for each two year offering period. Purchases are limited to 10% of an employee's annual compensation and may not exceed 500 shares per purchase period. Through June 30, 1994, 1,025,517 shares had been issued under the Purchase Plan.

NOTE 6 CAPITAL STOCK:

CONVERTIBLE PREFERRED STOCK

Each share of Series A convertible preferred stock may be converted into one share of common stock, subject to adjustment under certain circumstances. At June 30, 1994 there are 258,621 shares of common stock reserved for issuance upon conversion of all preferred stock. Shares of preferred stock may be voted equally with shares of common stock based upon the number of common shares into which each preferred share is convertible. No dividend or distribution is payable to common stock unless it is made equally to preferred stock based upon the then effective conversion rate. Upon liquidation, holders of Series A preferred stock are entitled to receive a preferential amount equal to $4.64 per share, plus any declared and unpaid dividends, before any distributions may be made to holders of common shares.

WARRANTS

In conjunction with the issuance of the 8.5% Convertible Promissory Notes, the Company issued warrants for the purchase of 25,000 shares of common stock at $7.28 per share to the placement agent and 16,216 shares of common stock at $4.64 per share to a bank that provides the Company with a line of credit. The warrants expire on July 16, 1997. The Company reserved 41,216 shares of common stock for issuance upon exercise of the warrants.

STOCK OPTION PLANS

In January 1985, the Company adopted its 1985 Stock Option Plan (the "1985 Plan") which provides for the granting of incentive stock options and non-qualified stock options to officers, employees and consultants of the company. Incentive stock options are granted at an amount not less than fair market value. The number of shares of common stock reserved for issuance pursuant to the 1985 Plan is 17,200,000. Options generally vest over four years. Option terms may not exceed ten years from the date of grant and unexercised options generally expire upon termination of employment. The 1985 Plan expires in January 1995. An amended and restated plan will be proposed for adoption by the Stockholders at the Company's November 1994 Annual Meeting.

<TABLE>
The 1985 Plan activities for the three years ended June 30, 1994 are summarized below:

<CAPTION>

	Shares available for grant	Options Outstanding	
		Shares	Price per share
<S>	<C>	<C>	<C>
Balance at June 30, 1991	1,414,612	6,767,647	$ 3.00 - $16.00
Additional shares authorized	1,000,000	--	
Options granted	(1,774,350)	1,774,350	$ 8.00 - $12.375
Options canceled	1,182,773	(1,182,773)	$ 5.50 - $12.25

Options exercised, net of repurchases	--	(1,744,921)	$ 3.00 - $11.50
Balance at June 30, 1992	1,823,035	5,614,303	$ 5.50 - $16.00
Options granted	(4,494,235)	4,494,235	$ 3.125- $ 6.25
Options canceled	4,809,074	(4,809,074)	$ 3.375- $16.00
Options exercised, net of repurchases	(10,564)		$ 5.50 - $ 5.50
Balance at June 30, 1993	2,137,874	5,288,900	$ 3.125- $9.75
Options granted	(1,577,350)	1,577,350	$ 4.00 - $6.250
Options canceled	1,325,149	(1,325,149)	$ 3.125- $8.250
Options exercised, net of repurchases	--	(700,679)	$ 3.125- $5.50
Balance at June 30, 1994	1,885,673	4,840,422	$ 3.125- $9.75

</TABLE>

In March 1988, the Company adopted the 1988 Non-qualified Stock Option Plan for Outside Directors (the "Directors' Plan"), which provides for the granting of non-qualified stock options to directors of the Company who are not employees of the Company. The plan was amended in November 1993 to increase share reserves, extend option grant terms and modify grant provisions. Options must have an exercise price equal to the fair market value of the shares of the common stock on the date of grant, vest over a four year period and expire ten years after the date of grant. The number of shares of common stock reserved for issuance pursuant to the exercise of options is 350,000 shares.

<TABLE>
The Directors Plan activities for the three years ended June 30, 1994 are summarized below:

<CAPTION>

		Options Outstanding	
	Shares available for grant	Shares	Price per Share
<S>	<C>	<C>	<C>
Balance at June 30, 1991	110,000	63,333	$11.00 - $21.75
Options granted	(10,000)	10,000	$13.125
Options canceled	30,000	(30,000)	$11.25 - $21.75
Balance at June 30, 1992	130,000	43,333	$11.00 - $21.75
Options granted	(50,000)	50,000	$4.063 - $4.375
Balance at June 30, 1993	80,000	93,333	$4.063 - $21.75
Options granted	(90,000)	90,000	$4.00 - $5.75
Options canceled	53,333	(53,333)	$4.063 - $11.25
Additional shares authorized	150,000	-	-
Balance at June 30, 1994	193,333	130,000	$4.00 - $21.75

</TABLE>

STOCKHOLDER RIGHTS PLAN

On August 1, 1989, the Company adopted a Stockholder Rights Plan that provides for the issuance of rights to holders of the Company's common stock, which will entitle the holders of such rights to purchase stock of the Company or of an acquiring entity at a discounted price in the event of certain efforts to acquire control of the Company that have not been approved by the Company's Board of Directors.

NOTE 7 INCOME TAXES:

In the fourth quarter of fiscal 1994, the Company resolved a number of tax issues and as a result, recorded a tax benefit of $2.2 million related to taxes which were previously provided. Since the Company had net operating losses as of the beginning of the year, there is no provision for income taxes in the current year. The Company had utilized all of its net operating loss carryback, and accordingly, recorded no tax benefits for fiscal 1993. The fiscal 1992 income tax benefit of $19.9 million results primarily from the federal tax benefit derived by carrying back losses to offset federal taxes paid in prior periods.

The significant components of deferred tax assets and liabilities are as

follows:

(In thousands)	Year ended June 30, 1994	1993
Net operating loss carryforwards	$ 20,759	$ 17,985
Inventory and related reserves	3,150	5,811
Depreciation	1,540	1,876
Restructuring	1,085	3,151
Other	2,968	3,098
Gross deferred tax asset	29,502	31,921
Valuation allowance	(29,252)	(30,804)
Net deferred tax asset	250	1,117
Amortization	--	(745)
Other	(250)	(372)
Gross deferred tax liability	(250)	(1,117)
	$ --	$ --

The decrease in the valuation allowance for deferred tax assets of $1.6 million is attributable to the reduction in gross deferred tax assets. The Company has established valuation allowances as the realizability of net deferred assets is uncertain.

At June 30, 1994 the Company had net loss carryforwards of approximately $46 million for both federal and state income tax purposes expiring through Fiscal 2009. No benefit for the loss carryforwards has been recognized in the financial statements.

NOTE 8 RESTRUCTURING COSTS:

During fiscal 1993 and 1992, the Company recorded restructuring charges of $23.2 million and $9.1 million, respectively. The restructuring charges included consolidation of facilities, severance costs related to headcount reduction, disposal of fixed assets and discontinuation of the Company's M/PAX(R) product line, X86 microprocessor products, systems business, networking products and future development of stand-alone multimedia products.

In September 1993, the Company entered into an agreement to sell the Company's system business, networking products and a portion of its multimedia products technology to Techfarm, Inc., the principals of which are a director and two former officers of the Company. Techfarm acquired these assets from the Company for $1.7 million, comprising $100,000 in cash and a two year promissory note for $1.6 million. In addition, Techfarm assumed up to $1 million of liabilities. In March 1994, the promissory note was restructured to provide that the Techfarm subsidiaries operating the systems business are the principals on the note, with

Techfarm as guarantor. During the third quarter fiscal 1994, the Company received the first of four scheduled semiannual payments of $0.4 million, which is included in current year income. Income will be recorded if the note is realized through future cash collection.

On September 16, 1993, the Company entered into a settlement agreement with the lessor of certain buildings previously occupied by the Company. Consideration for the settlement, comprising a cash payment of $5.5 million and a promissory note of $1 million, was charged against the restructuring reserve provided in fiscal 1993.

<TABLE>
The following table summarizes the status of these restructuring reserves at June 30, 1994:

<CAPTION>

(In thousands)	Consolidations of Operations & Other	Fixed Asset Disposals	Product Discontinuation	Reduction of Workforce	Total
<S>	<C>	<C>	<C>	<C>	<C>
Provision for restructuring	4,100	953	1,640	2,438	9,131
Charges against reserves	(758)	(953)	(1,619)	(858)	(4,188)
Accrued restructuring					
balance at 6/30/92	3,342	--	21	1,580	4,943
Provision for restructuring	7,912	5,357	6,146	3,856	23,271

Charges against reserves	(3,118)	(5,357)	(4,014)	(1,950)	(14,439)
Accrued restructuring balance at 6/30/93	8,136	--	2,153	3,486	13,775
Collection of note receivable	--	--	(372)	--	(372)
Charges against reserves	(6,694)	--	(1,781)	(3,386)	(11,861)
Accrued restructuring balance at 6/30/94	$ 1,442	$ --	$ --	$ 100	$ 1,542

</TABLE>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH INDEPENDENT AUDITORS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning directors is incorporated by reference from the section entitled "Nomination and Election of Directors" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" of the Proxy Statement. Information regarding executive officers of the Company is presented in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference from the section entitled "Executive Compensation and Other Matters" of the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is incorporated by reference from the section entitled "Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is incorporated by reference from the section entitled "Certain Transactions and Other Relationships" of the Proxy Statement.

PART IV

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

A) 1. FINANCIAL STATEMENTS

The consolidated financial statements and notes thereto listed in the index on page 16 are filed as part of this Annual Report on Form 10-K.

2. FINANCIAL STATEMENT SCHEDULES

The financial statement schedules listed below are filed as part of this Annual Report on Form 10-K.

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

B) REPORTS ON FORM 8K

NONE

C) EXHIBITS

The exhibits listed in the Index to Exhibits on pages 33 to 34 of this

report are filed as part of this Annual Report on Form 10K.

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors of
Chips and Technologies, Inc.

Our audits of the consolidated financial statements referred to in our report dated July 21, 1994, appearing on page 17 of this document, also included an audit of the Financial Statement Schedules listed in Item 14(a)(2), of this Form 10-K. In our opinion, these Financial Statement Schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICE WATERHOUSE LLP
- ------------------------

PRICE WATERHOUSE LLP
San Jose, California
July 21, 1994

SCHEDULE II

<TABLE>

CHIPS AND TECHNOLOGIES, INC.
AMOUNTS RECEIVABLE FROM EMPLOYEES
(IN THOUSANDS)

<CAPTION>

			DEDUCTIONS		BALANCE AT JUNE 30, 1994	
NAME OF DEBTOR	BALANCE AT JUNE 30 1993	ADDITIONS	AMOUNTS COLLECTED	AMOUNTS WRITTEN OFF	CURRENT	NOT CURRENT
<S>	<C>	<C>	<C>	<C>	<C>	<C>
NONE						

</TABLE>

<TABLE>
<CAPTION>

			DEDUCTIONS		BALANCE AT JUNE 30, 1993	
NAME OF DEBTOR	BALANCE AT JUNE 30 1992	ADDITIONS(3)	AMOUNTS COLLECTED	AMOUNTS WRITTEN OFF	CURRENT	NOT CURRENT
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Marc Jones (1)	$229	$19	$248	-	-	-
Steven Chan (2)	94	-	94	-	-	-
Douglas Peltzer (4)	162	-	-	162	-	-
	---	-	-	---	-	-
	$485	$19	$342	$162	$-	$-

</TABLE>

<TABLE>
<CAPTION>

			DEDUCTIONS		BALANCE AT JUNE 30, 1992	
NAME OF DEBTOR	BALANCE AT JUNE 30 1991	ADDITIONS(3)	AMOUNTS COLLECTED	AMOUNTS WRITTEN OFF	CURRENT	NOT CURRENT
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Keith Lobo	$25	$2	-	$27	-	-
Marc Jones (1)	238	18	-	27	229	-
James Ferry	80	6	-	86	-	-
Steven Chan (2)	126	10	-	42	34	60
Douglas Peltzer (4)	215	16	-	69	62	100
	---	--	-	----	-----	---
	$684	$52	$-	$251	$325	$160

<FN>

(1) The Company extended a loan to Mr. Jones for the purchase of shares of common stock under the 1985 Stock Option Plan. This full recourse note bore interest at a rate of 9.5% per annum and was payable the earlier of termination of employment or February 1990. In February 1990, 1991 and 1992, Mr. Jones' note was renewed at an interest rate of 8%. In February 1993, the balance of $240,000 was renewed at an interest rate of 5% upon Mr. Jones' voluntary termination of employment. The outstanding balance of $248,000 at June 30, 1993 was

reclassified to accounts receivable and was paid in full in fiscal 1994.

(2) The $150,000 note from Mr. Chan was for a period of five years. One fifth of the principal (and all accrued interest thereon) was forgiven for each year of continued service to the Company. The balance was paid in full in July 1992 upon Mr. Chan's voluntary termination of employment.

(3) Interest earned.

(4) The $200,000 note from Mr. Peltzer was for a period of four years and bore interest at a rate of 9.5% per annum. One fourth of the principal (and all accrued interest thereon) was forgiven for each year of continued service to the Company. The remaining principal (and all accrued interest thereon) was forgiven in July 1992 in accordance with Mr.Peltzer's severance agreement.

</TABLE>

SCHEDULE VIII

<TABLE>
<CAPTION>

CHIPS AND TECHNOLOGIES, INC.
VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

	Balance at beginning of year	Charged to costs and expenses	Accounts written-off	Recovery from reserve account	Balance at end of year
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for doubtful accounts:					
Year ended June 30, 1994	$1,463	$676	$870	$-	$1,269
Year ended June 30, 1993	2,377	1,079	1,993	-	1,463
Year ended June 30, 1992	2,338	457	318	100	2,377
Reserve for inventory:					
Year ended June 30, 1994	$16,270	$1,228	$7,809(1)	-	$9,689
Year ended June 30, 1993	7,669	9,242	641(1)	-	16,270
Year ended June 30, 1992	6,577	24,011	22,919(1)	-	7,669

<FN>
(1) Represents inventories previously reserved that were scrapped or physically disposed.

</TABLE>

SIGNATURES

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

CHIPS AND TECHNOLOGIES, INC.

By /s/ JAMES F. STAFFORD
James F. Stafford
President and Chief Executive Officer

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

<TABLE>
<CAPTION>

Signature	Title	Date
<S>	<C>	<C>
/s/ GORDON A. CAMPBELL Gordon A. Campbell	Chairman of the Board of Directors	September 22, 1994
/s/ JAMES F. STAFFORD	President and Chief Executive Officer	September 22, 1994

- ------------------------ James F. Stafford	and Director	
/s/ TIMOTHY R. CHRISTOFFERSEN - ------------------------------- Timothy R. Christoffersen	Vice President and Chief Financial Officer (Principal Financial & Accounting Officer)	September 22, 1994
/s/ GENE P. CARTER - ---------------------- Gene P. Carter	Director	September 22, 1994
/s/ BERNARD V. VONDERSCHMITT - ------------------------------- Bernard V. Vonderschmitt	Director	September 22, 1994
/s/ HENRI A. JARRAT - ---------------------- Henri A. Jarrat	Director	September 22, 1994

</TABLE>

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	(2) Amended Certificate of Incorporation of Chips and Technologies, Inc., a Delaware corporation.
3.2	(7) Restated By-laws of Chips and Technologies, Inc., a Delaware corporation.
3.3	(4) Certificate of Designation, Preferences and Rights of the Terms of the Series A Preferred Stock filed with the State of Delaware on May 20, 1993.
4.1	(1) Stockholders' Rights Agreement dated August 23, 1989.
4.2	(7) Registration Rights Agreement dated October 10, 1985 and amendment thereto dated January 24, 1986.
10.1	(3)* Amended and Restated 1985 Stock Option Plan, as amended November 5, 1991.
10.2	(4)* Amended and Restated Employee Stock Purchase Plan, as amended July 27, 1992.
10.3	(4) Lease Termination Agreement and related exhibit between the Company and The Equitable Life Assurance Society dated September 10, 1993.
10.4	(2)* Amended and Restated Qualified Investment Plan dated January 1, 1989.
10.5	(6)* First Amended 1988 Nonqualified Stock Option Plan for Outside Directors dated October 1, 1993.
10.6	(4)* Promissory Note to the Company from Marc E. Jones dated February 3, 1993.
10.7	(2) Form of Indemnity Agreement between the Company and each of its directors and executive officers.
10.8	(4)* Confidential Termination Agreement and General Release of Claims between the Company and Ravi Bhatnagar dated December 18, 1992.
10.9	(4)* Confidential Termination Agreement and General Release of Claims between the Company and Nancy S. Dusseau, dated September 1, 1993.
10.10	(4)* Confidential Termination Agreement and General Release of Claims between the Company and Jeffrey H. Grammer, dated September 2, 1993.
10.11	(4)* Confidential Termination Agreement and General Release of Claims between the Company and Gary P. Martin, dated April 19, 1993.

10.12	(5)*	Confidential Resignation and Consulting Agreement and General Release of Claims between the Company and Gordon A. Campbell dated September 30, 1993.
10.13	(4)	Convertible Promissory Notes and Preferred Stock Purchase Agreement dated as of July 16, 1992.
10.14	(4)	Amendment to Convertible Promissory Notes and Preferred Stock Purchase Agreement.

INDEX TO EXHIBITS (CONTINUED)

Exhibit Number		Description
10.15	(4)	Form of Convertible Subordinated Debentures Due June 30, 2002.
10.16	(4)	Amendment to 8 1/2% Convertible Subordinated Debentures Due, June 30, 2002
10.17	(5)	Agreement for Sale and Purchase of Assets between Techfarm, Inc. and Chips and Technologies, Inc., dated September 24, 1993.
10.18		Restated Secured Promissory Note, Secured Continuing Guarantee, and Restated Loan and Security Agreement between Techfarm, Inc. and Chips and Technologies, Inc. dated March 31, 1994.
10.19	*	Promissory note to the Company from Keith Angelo dated August 1, 1994.
10.20	*	Independent Contractor Services Agreement between the Company and Henri Jarrat dated August 11, 1994.
11.1		Statement re: Calculation of Earnings (Loss) Per Share.
22.1		Proxy Statement for the Registrant's Annual Meeting of Stockholders to be held on November 10, 1994.
27.0		Financial Data Schedule for the year ended June 30, 1994.

(1) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 1989.

(2) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 1990.

(3) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 1992.

(4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 1993.

(5) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1993.

(6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1994.

(7) Incorporated by reference to Registration Statement No. 33-8005 effective October 8, 1986.

* Denotes management contracts or compensatory plans or arrangements covering executive officers or directors of Chips and Technologies, Inc.

CERTIFICATE OF INCORPORATION

OF

CHIPS AND TECHNOLOGIES, INC.

FIRST: The name of the Corporation is Chips and Technologies, Inc. (hereinafter sometimes referred to as the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of Delaware.

FOURTH:

A. The total number of shares of all classes of stock which the Corporation shall have authority to issue is forty million (40,000,000), consisting of:

(1) Five million (5,000,000) shares of Preferred Stock, par value one cent ($.01) per share (the "Preferred Stock"); and

(2) thirty-five million (35,000,000) shares of Common Stock, par value one cent ($.01) per share (the "Common Stock").

B. The Board of Directors is authorized, subject to any limitations prescribed by law, to provide for the issuance of the shares of Preferred Stock in series, and by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences, and rights of the shares of each such series and any qualifications, limitations or restrictions thereon. The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the Common Stock, without a vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such holders is required pursuant to the certificate or certificates establishing the series of Preferred Stock.

FIFTH: The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition,

limitation and regulation of the powers of the Corporation and of its directors and stockholders:

A. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authority expressly conferred upon them by Statute or by this Certificate of Incorporation or the By-Laws of the Corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation.

B. The directors of the Corporation need not be elected by written ballot unless the By-Laws so provide.

C. After the closing date of the first sale of the Corporation's Common Stock pursuant to a firmly underwritten registered public offering, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders. Prior to such sale, unless otherwise provided by law, any action which may otherwise be taken at any meeting of the stockholders may be taken without a meeting and without prior notice, if a written consent describing such action is signed by the holders of outstanding shares having not less than the minimum number of votes which would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

D. Special meetings of stockholders of the Corporation may be called only by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption).

SIXTH:

A. The number of directors shall initially be three and, thereafter, shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption). The directors shall be elected at each annual meeting of shareholders, but if any annual meeting is not held, or the directors are not elected thereat, the directors may be elected at any special meeting of the shareholders held for that purpose. All directors shall hold office until the expiration of the term for which elected, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director.

B. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from

office or other cause may be filled only by a majority vote of the directors then in office though less than a quorum, and directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

C. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any directors, or the entire Board of Directors, may be removed from office at any time, with or without cause, but only by the affirmative vote of the holders of at least a majority of the voting power of all of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class.

SEVENTH: The Board of Directors is expressly empowered to adopt, amend or repeal By-laws of the Corporation. Any adoption, amendment or repeal of By-laws of the Corporation by the Board of Directors shall require the approval of a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any resolution providing for adoption, amendment or repeal is presented to the Board). The stockholders shall also have power to adopt, amend or repeal the By-laws of the Corporation. In addition to any vote of the holders of any class or series of stock of this Corporation required by law or by this Certificate of Incorporation, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt, amend or repeal any provisions of the By-laws of the Corporation.

EIGHTH: A director of this Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

If the Delaware General Corporation Law is hereafter amended to authorize the further elimination or limitation of the liability of a director, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

Any repeal or modification of the foregoing provisions of this Article EIGHTH by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

NINTH: The Board of Directors of the Corporation (the "Board"), when

evaluating any offer of another party, (a) to make a tender or exchange offer for any Voting Stock of the Corporation (as defined in Article SIXTH) or (b) to effect any merger, consolidation, or sale of all or substantially all of the assets of the Corporation, shall, in connection with the exercise of its judgment in determining what is in the best interests of the Corporation as a whole, be authorized to give due consideration to such factors as the Board determines to be relevant, including, without limitation:

(i) the interests of the Corporation's stockholders;

(ii) whether the proposed transaction might violate federal or state laws;

(iii) not only the consideration being offered in the proposed transaction, in relation to the then current market price for the outstanding capital stock of the Corporation, but also to the market price for the capital stock of the Corporation over a period of years, the estimated price that might be achieved in a negotiated sale of the Corporation as a whole or in part or through orderly liquidation, the premiums over market price for the securities of other corporations in similar transactions, current political, economic and other factors bearing on securities prices and the Corporation's financial condition and future prospects; and

(iv) the social, legal and economic effects upon employees, suppliers, customers and others having similar relationships with the Corporation, and the communities in which the Corporation conducts its business.

In connection with any such evaluation, the Board is authorized to conduct such investigations and to engage in such legal proceedings as the Board may determine.

TENTH: The Corporation reserves the right to amend or repeal any provision contained in this Certificate of Incorporation in the manner prescribed by the laws of the State of Delaware and all rights conferred upon stockholders are granted subject to this reservation; provided, however, that, notwithstanding any other provision of this Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any vote of the holders of any class or series of the stock of this Corporation required by law or by this Certificate of Incorporation, the affirmative vote of the holders of at least 66-2/3% of the voting power of all of the then-outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend or repeal this Article ELEVENTH, Article FIFTH, Article SEVENTH, Article EIGHTH or Article NINTH.

ELEVENTH: The name and mailing address of the sole incorporator are as follows:

Name	Mailing Address

Marta L. Morando

400 Hamilton Avenue
Palo Alto, California 94301

I, THE UNDERSIGNED, being the incorporator, for the purpose of forming a corporation under the laws of the State of Delaware, do make, file and record this Certificate of Incorporation, do certify that the facts herein stated are true, and accordingly, have hereto set my hand this 25th day of July 1986.

_____

Marta L. Morando

CHIPS AND TECHNOLOGIES, INC.,

A DELAWARE CORPORATION

BY-LAWS

ARTICLE I
STOCKHOLDERS

Section 1. Annual Meeting. An annual meeting of the stockholders, for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place, on such date, and at such time as the Board of Directors shall each year fix, which date shall be within thirteen months subsequent to the later of the date of incorporation or the last annual meeting of stockholders.

Section 2. Special Meetings. Special meetings of the stockholders, for any purpose or purposes prescribed in the notice of the meeting, may be called by either the Board of Directors or by the holders of not less than twenty percent (20%) of all of the shares entitled to cast votes at the meeting and shall be held at such place, on such date, and at such time as they shall fix, provided, however, that such special meeting date shall not be earlier than sixty (60) days after the date on which such meeting was called, unless the Board of Directors agrees on an earlier date. Business transacted at special meetings shall be confined to the purpose or purposes stated in the notice.

Section 3. Notice of Meetings. Written notice of the place, date, and time of all meetings of the stockholders shall be given, not less than ten (10) nor more than sixty (60) days before the date on which the meeting is to be held, to

each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the Delaware General Corporation Law or the Certificate of Incorporation of the Corporation).

When a meeting is adjourned to another place, date or time, written notice need not be given of the adjourned meeting if the place, date and time thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than thirty (30) days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, written notice of the place, date, and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

Section 4. Quorum. At any meeting of the stockholders, the holders of a majority of all of the shares of the stock entitled to vote at the meeting, present in person or by proxy, shall constitute a quorum for all purposes, unless or except to the extent that the presence of a larger number may be required by law.

If a quorum shall fail to attend any meeting, the chairman of the meeting or the holders of a majority of the shares of stock entitled to vote who are present, in person or by proxy, may adjourn the meeting to another place, date, or time.

If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present constituting a quorum, then except as otherwise required by law, those present at such adjourned meeting shall constitute a quorum, and all matters shall be determined by a majority of the votes cast at such meeting.

Section 5. Conduct of the Stockholders' Meeting. At every meeting of the stockholders, the Chairman, if there is such an officer, or if not, the President of the Corporation, or in his absence the Vice President designated by the President, or in the absence of such designation any Vice President, or in the absence of the President or any Vice President a chairman chosen by the majority of the voting shares represented in person or by proxy, shall act as Chairman. The Secretary of the Corporation or a person designated by the Chairman shall act as Secretary of the meeting. Unless otherwise approved by the Chairman, attendance at the Stockholders' Meeting is restricted to stockholders of record, persons authorized in accordance with Section 8 of these By-Laws to act by proxy, and officers of the corporation.

Section 6. Conduct of Business. The Chairman shall call the meeting to order, establish the agenda, and conduct the business of the meeting in accordance therewith or, at the Chairman's discretion, it may be conducted otherwise in accordance with the wishes of the stockholders in attendance.

The Chairman shall also conduct the meeting in an orderly manner, rule on the precedence of, and procedure on, motions and other procedural matters, and exercise discretion with respect to such procedural matters with fairness and good faith toward all those entitled to take part. The Chairman may impose reasonable limits on the amount of time taken up at the meeting on discussion in general or on remarks by any one stockholder. Should any person in attendance become unruly or obstruct the meeting proceedings, the Chairman shall have the power to have such person removed from participation. Notwithstanding anything in the By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 6 and Section 7, below. The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 6 and Section 7, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 7. Notice of Stockholder Business. At an annual or special meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before a meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) properly brought before the meeting by or at the direction of the Board of Directors, or (c) if an annual meeting, properly brought before the meeting by a stockholder

and (d) if a special meeting, if, and only if, the notice of a special meeting provides for business to be brought before the meeting by stockholders and such business is properly brought before the meeting by a stockholder.

For business to be properly brought before a meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety (90) days prior to the meeting; provided, however, that in the event that less than one hundred (100) days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made.

A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the Corporation which are beneficially owned by the stockholder, and (d) any material interest of the stockholder in such business. Stockholder resolutions shall be no more than five

hundred (500) words in length.

No resolution shall be put before the stockholders:

(a) which is not a proper subject for action by stockholders under Delaware law;

(b) which is obstructive, frivolous, dilatory or repugnant to good taste;

(c) which contains any false or misleading statements;

(d) which relates to the redress of a personal claim or grievance against the Corporation or any other person, or if it is designated to result in a benefit or interest that is not shared by the stockholders at large;

(e) which relates to operations which account for less than five percent of the Corporation's total assets at the end of its most recent fiscal year, and for less than five percent of its net earnings and gross sales for its most recent fiscal year, and is not otherwise significantly related to the corporation's business;

(f) which deals with a matter beyond the Corporation's power to effectuate;

(g) which deals with a matter relating to conduct of the ordinary business operations of the Corporation;

(h) which is counter to or substantially duplicative of a proposal to be submitted by the Corporation at the meeting;

(i) if the proposal deals with substantially the same subject matter as a prior proposal submitted to stockholders in the Corporation's proxy statement and a form of proxy related to any annual or special meeting of stockholders held within the preceding five calendar years, it may be omitted from the agenda of any meeting of stockholders held within three calendar years after the latest such submission, provided that:

(i) if the proposal was submitted at only one meeting during such preceding period, it received less than five percent of the total number of votes cast in regard thereto; or

(ii) if the proposal was submitted at only two meetings during such preceding period, it received at the time of its second submission less than eight percent of the total number of votes cast in regard thereto; or

(iii)if the prior proposal was submitted at three or more meetings during such preceding period, it received at the time of its latest submission less than ten percent of the total number of votes cast in regard thereto.

Section 8.Proxies and Voting. At any meeting of the stockholders, every stockholder entitled to vote may vote in person or by proxy authorized by an instrument in writing filed in accordance with the procedure established for the meeting. No stockholder may authorize more than one proxy for his shares.

Each stockholder shall have one vote for every share of stock entitled to vote which is registered in his or her name on the record date for the meeting, except as otherwise provided herein or required by law.

All voting, including on the election of directors but excepting where otherwise required by law, may be by a voice vote; provided, however, that upon demand therefor by a stockholder entitled to vote or his or her proxy, a stock vote shall be taken. Every stock vote shall be taken by ballots, each of which shall state the name of the stockholder or proxy voting and such other information as may be required under the procedure established for the meeting. Every vote taken by ballots shall be counted by an inspector or inspectors appointed by the chairman of the meeting.

All elections shall be determined by a plurality of the votes cast, and except as otherwise required by law, all other matters shall be determined by a majority of the votes cast.

Section 9. Stock List. A complete list of stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order for each class of stock and showing the address of each such stockholder and the number of shares registered in his or her name, shall be open to the examination of any such stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of at least ten (10) days prior to the meeting, either at a

place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held.

The stock list shall also be kept at the place of the meeting during the whole time thereof and shall be open to the examination of any such stockholder who is present. This list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

ARTICLE II
BOARD OF DIRECTORS

Section 1. Number and Term of Office.

A. The number of directors shall initially be four and, thereafter, shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors

(whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption).

B. The directors shall be divided into three classes, as nearly equal in number as reasonably possible, with the term of office of the first class to expire at the 1992 annual meeting of stockholders, the term of office of the second class to expire at the 1991 annual meeting of stockholders and the term of office of the third class to expire at the 1990 annual meeting of stockholders. At each annual meeting of stockholders following such initial classification and election, directors shall be elected to succeed those directors whose terms expire for a term of office to expire at the third succeeding annual meeting of stockholders after their election. All directors shall hold office until the expiration of the term for which elected, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director.

C. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification or other cause (other than removal from office by a vote of stockholders) may be filled only by a quorum, and directors so chosen shall hold office for a term expire at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

D. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any directors, or the entire Board of Directors, may be removed from office at any time, with or without cause, but only by the affirmative vote of the holders of at least a majority of the voting power of all of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single

class. Vacancies in the Board of Directors resulting from such removal may be filled by (i) a majority of the directors then in office, though less than a quorum, or (ii) the stockholders at a special meeting of the stockholders properly called for that purpose, by the vote of the holders of a majority of the shares entitled to vote at such special meeting. Directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires.

Section 2. Vacancies and Newly Created Directorships. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification or other cause (other than removal from office by a vote of the shareholders) may be filled only by a majority vote of the directors then in office, though less than a quorum, and directors so chosen shall hold

office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Section 3. Removal. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any directors, or the entire Board of Directors, may be removed from office at any time, with or without cause, but only by the affirmative vote of the holders of at least a majority of the voting power of all of the then-outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class. Vacancies in the Board of Directors resulting from such removal may be filled by (i) a majority of the directors then in office, though less than a quorum, or (ii) the stockholders at a special meeting of the shareholders properly called for that purpose, by the vote of the holders of a majority of the shares entitled to vote at such special meeting. Directors so chosen shall hold office until the next annual meeting of stockholders.

Section 4. Regular Meetings. Regular meetings of the Board of Directors shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the Board of Directors and publicized among all directors. A notice of each regular meeting shall not be required.

Section 5. Special Meetings. Special meetings of the Board of Directors may be called by one-third of the directors then in office (rounded up to the nearest whole number) or by the chief executive officer and shall be held at such place, on such date, and at such time as they or he or she shall fix. Notice of the place, date, and time of each such special meeting shall be given each director by whom it is not waived by mailing written notice not fewer than five (5) days before the meeting or by telegraphing or personally delivering the same not fewer than twenty-four (24) hours before the meeting. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

Section 6. Quorum. At any meeting of the Board of Directors, a majority of the total number of authorized directors shall constitute a quorum for all purposes. If a quorum shall fail to attend any meeting, a majority of those present may adjourn the meeting to another place, date, or time, without further notice or waiver thereof.

Section 7. Participation in Meetings by Conference Telephone. Members of the Board of Directors, or of any committee thereof, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

Section 8. Conduct of Business. At any meeting of the Board of Directors,

business shall be transacted in such order and manner as the Board may from time to time determine, and all matters shall be determined by the vote of a majority of the directors present, except as otherwise provided herein or required by law. Action may be taken by the Board of Directors without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors.

Section 9. Powers. The Board of Directors may, except as otherwise required by law, exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, including, without limiting the generality of the foregoing, the unqualified power:

(1) To declare dividends from time to time in accordance with law;

(2) To purchase or otherwise acquire any property, rights or privileges on such terms as it shall determine;

(3) To authorize the creation, making and issuance, in such form as it may determine, of written obligations of every kind, negotiable or non-negotiable, secured or unsecured, and to do all things necessary in connection therewith;

(4) To remove any officer of the Corporation with or without cause, and from time to time to devolve the powers and duties of any officer upon any other person for the time being;

(5) To confer upon any officer of the Corporation the power to appoint, remove and suspend subordinate officers, employees and agents;

(6) To adopt from time to time such stock, option, stock purchase, bonus or other compensation plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine;

(7) To adopt from time to time such insurance, retirement, and other benefit plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine; and

(8) To adopt from time to time regulations, not inconsistent with these by-laws, for the management of the Corporation's business and affairs.

Section 10. Compensation of Directors. Directors, as such, may receive, pursuant to resolution of the Board of Directors, fixed fees and other compensation for their services as directors, including, without limitation, their services as members of committees of the Board of Directors.

Section 11. Nomination of Director Candidates. Subject to the rights of holders of any class or series of Preferred Stock then outstanding, nominations for the election of Directors may be made by the Board of Directors or a proxy

committee appointed by the Board of Directors or by any stockholder entitled to vote in the election of Directors generally. However, any stockholder entitled to vote in the election of Directors generally may nominate one or more persons for election as Directors at a meeting only if timely notice of such stockholder's intent to make such nomination or nominations has been given in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not fewer than ninety (90) days prior to the meeting; provided, however, that in the event that less than one hundred (100) days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received no later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote for the election of Directors on the date of such notice and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a director of the Corporation if so elected.

In the event that a person is validly designated as a nominee in accordance with this Section 11 and shall thereafter become unable or unwilling to stand for election to the Board of Directors, the Board of Directors or the stockholder who proposed such nominee, as the case may be, may designate a substitute nominee upon delivery, not fewer than five days prior to the date of the meeting for the election of such nominee, of a written notice to the Secretary setting forth such information regarding such substitute nominee as would have been required to be delivered to the Secretary pursuant to this Section 11 had such substitute nominee been initially proposed as a nominee. Such notice shall include a signed consent to serve as a Director of the Corporation, if elected, of each such substitute nominee.

If the chairman of the meeting for the election of Directors determines that a nomination of any candidate for election as a Director at such meeting was not made in accordance with the applicable provisions of this Section 11, such nomination shall be void; provided, however, that nothing in this Section 11 shall be deemed to limit any voting rights upon the occurrence of dividend arrearages provided to holders of Preferred Stock pursuant to the Preferred Stock designation for any series of Preferred Stock.

ARTICLE III
COMMITTEES

Section 1. Committees of the Board of Directors. The Board of Directors, by a vote a majority of the whole Board, may from time to time designate committees of the Board, with such lawfully delegable powers and duties as it thereby confers, to serve at the pleasure of the Board and shall, for those committees and any others provided for herein, elect a director or directors to serve as the member or members, designating, if it desires, other directors as alternate members who may replace any absent or disqualified member at any meeting of the committee. Any committee so designated may exercise the power and authority of the Board of Directors to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation Law if the resolution which designates the committee or a supplemental resolution of the Board of Directors shall so provide. In the absence or disqualification of any member of any committee and any alternate member in his place, the member or members of the committee present at the meeting and not disqualified from voting, whether or not he or she or they constitute a quorum, may by unanimous vote appoint another member of the Board of Directors to act at the meeting in the place of the absent or disqualified member.

Section 2. Conduct of Business. Each committee may determine the procedural rules for meeting and conducting its business and shall act in accordance therewith, except as otherwise provided herein or required by law. Adequate provision shall be made for notice to members of all meetings; one-third of the authorized members shall constitute a quorum unless the committee shall consist of one or two members, in which event one member shall constitute a quorum; and all matters shall be determined by a majority vote of the members present. Action may be taken by any committee without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of such committee.

ARTICLE IV
OFFICERS

Section 1. Generally. The officers of the Corporation shall consist of a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers as may from time to time be appointed by the Board of Directors. Officers shall be elected by the Board of Directors, which shall consider that subject at its first meeting after every annual meeting of stockholders. Each officer shall hold office until his or her successor is elected and qualified or until his or her earlier resignation or removal. The President shall be a member of the Board of Directors. Any number of offices may be held by the same person.

Section 2. President. The President shall be the chief executive officer of

the Corporation. Subject to the provisions of these by-laws and to the direction of the Board of Directors, he or she shall have the responsibility for the general management and control of the business and affairs of the Corporation and shall perform all duties and have all powers which are commonly incident to the office of chief executive or which are delegated to him or her by the Board of Directors. He or she shall have power to sign all stock certificates, contracts and other instruments of the Corporation which are authorized and shall have general supervision and direction of all of the other officers, employees and agents of the Corporation.

Section 3. Vice President. Each Vice President shall have such powers and duties as may be delegated to him or her by the Board of Directors. One Vice President shall be designated by the Board to perform the duties and exercise the powers of the President in the event of the President's absence or disability.

Section 4. Treasurer. The Treasurer shall have the responsibility for maintaining the financial records of the Corporation and shall have custody of all monies and securities of the Corporation. He or she shall make such disbursements of the funds of the Corporation as are authorized and shall render from time to time an account of all such transactions and of the financial condition of the Corporation. The Treasurer shall also perform such other duties as the Board of Directors may from time to time prescribe.

Section 5. Secretary. The secretary shall issue all authorized notices for, and shall keep, or cause to be kept, minutes of all meetings of the stockholders, the Board of Directors, and all committees of the Board of Directors. He or she shall have charge of the corporate books and shall perform such other duties as the Board of Directors may from time to time prescribe.

Section 6. Delegation of Authority. The Board of Directors may from time to time delegate the powers or duties of any officer to any other officers or agents, notwithstanding any provision hereof.

Section 7. Removal. Any officer of the Corporation may be removed at any time, with or without cause, by the Board of Directors.

Section 8. Action With Respect to Securities of Other Corporations. Unless otherwise directed by the Board of Directors, the President or any officer of the Corporation authorized by the President shall have power to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting of stockholders of or with respect to any action of stockholders of any other corporation in which this Corporation may hold securities and otherwise to exercise any and all rights and powers which this Corporation may possess by

reason of its ownership of securities in such other corporation.

ARTICLE V

STOCK

Section 1. Certificates of Stock. Each stockholder shall be entitled to a certificate signed by, or in the name of the Corporation by, the President or a Vice President, and by the Secretary or an Assistant Secretary, or the Treasurer or an Assistant Treasurer, certifying the number of shares owned by him or her. Any of or all the signatures on the certificate may be facsimile.

Section 2. Transfers of Stock. Transfers of stock shall be made only upon the transfer books of the Corporation kept at an office of the Corporation or by transfer agents designated to transfer shares of the stock of the Corporation. Except where a certificate is issued in accordance with Section 4 of Article V of these by-laws, an outstanding certificate for the number of shares involved shall be surrendered for cancellation before a new certificate is issued therefor.

Section 3. Record Date. The Board of Directors may fix a record date, which shall not be more than sixty nor fewer than ten days before the date of any meeting of stockholders, nor more than sixty days prior to the time for the other action hereinafter described, as of which there shall be determined the stockholders who are entitled: to notice of or to vote at any meeting of stockholders or any adjournment thereof; to express consent to corporate action in writing without a meeting; to receive payment of any dividend or other distribution or allotment of any rights; or to exercise any rights with respect to any change, conversion or exchange of stock or with respect to any other lawful action.

Section 4. Lost, Stolen or Destroyed Certificates. In the event of the loss, theft or destruction of any certificate of stock, another may be issued in its place pursuant to such regulations as the Board of Directors may establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond or bonds of indemnity.

Section 5. Regulations. The issue, transfer, conversion and registration of certificates of stock shall be governed by such other regulations as the Board of Directors may establish.

ARTICLE VI
NOTICES

Section 1.Notices. Except as otherwise specifically provided herein or required by law, all notices required to be given to any stockholder, director, officer, employee or agent shall be in writing and may in every instance be effectively given by hand delivery to the recipient thereof, by depositing such

notice in the mails, postage paid, or by sending such notice by prepaid telegram or mailgram. Any such notice shall be addressed to such stockholder, director, officer, employee or agent at his or her last known address as the same appears

on the books of the Corporation. The time when such notice shall be deemed to be given shall be the time such notice is received by such stockholder, director, officer, employee or agent, or by any person accepting such notice on behalf of such person, if hand delivered, or dispatched, if delivered through the mails or by telegram or mailgram.

Section 2. Waivers. A written waiver of any notice, signed by a stockholder, director, officer, employee or agent, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such stockholder, director, officer, employee or agent. Neither the business nor the purpose of any meeting need be specified in such a waiver.

ARTICLE VII
MISCELLANEOUS

Section 1. Facsimile Signatures. In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these by-laws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

Section 2. Corporate Seal. The Board of Directors may provide a suitable seal, containing the name of the Corporation, which seal shall be in the charge of the Secretary. If and when so directed by the Board of Directors or a committee thereof, duplicates of the seal may be kept and used by the Treasurer or by an Assistant Secretary or Assistant Treasurer.

Section 3. Reliance Upon Books, Reports and Records. Each director, each member of any committee designated by the Board of Directors, and each officer of the Corporation shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or other records of the Corporation, including reports made to the Corporation by any of its officers, by an independent certified public accountant, or by an appraiser selected with reasonable care.

Section 4. Fiscal Year. The fiscal year of the Corporation shall be as fixed by the Board of Directors.

Section 5. Time Periods. In applying any provision of these by-laws which require that an act be done or not done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.

ARTICLE VIII
INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 1. Right to Indemnification. Each person who was or is made a party

or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative ("proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative, is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer or employee of another corporation, or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer or employee or in any other capacity while serving as a director, officer or employee, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by Delaware Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said Law permitted the Corporation to provide prior to such amendment) against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties, amounts paid or to be paid in settlement and amounts expended in seeking indemnification granted to such person under applicable law, this by-law or any agreement with the Corporation) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in Section 2 of this Article VIII, the Corporation shall indemnify any such person seeking indemnity in connection with an action, suit or proceeding (or part thereof) initiated by such person only if such action, suit or proceeding (or part thereof) was authorized by the board of directors of the Corporation. Such right shall be a contract right and shall include the right to be paid by the Corporation expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law then so requires, the payment of such expenses incurred by a director or officer of the Corporation in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of such proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it should be determined ultimately that such director or officer is not entitled to be indemnified under this Section or otherwise.

Section 2. Right of Claimant to Bring Suit. If a claim under Section 1 of this Article VIII is not paid in full by the Corporation within twenty (20) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if such suit is not frivolous or brought in bad faith, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any, has been tendered

to this Corporation) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct.

Section 3. Non-Exclusivity of Rights. The rights conferred on any person in Sections 1 and 2 shall not be exclusive of any other right which such persons may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, by-law, agreement, vote of stockholders or disinterested directors or otherwise.

Section 4. Indemnification Contracts. The board of directors is authorized to enter into a contract with any director, officer, employee or agent of the Corporation, or any person serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including employee benefit plans, providing for indemnification rights equivalent to or, if the board of directors so determinates, greater than, those provided for in this Article VIII.

Section 5. Insurance. The Corporation shall maintain insurance to the extent reasonably available, at its expense, to protect itself and any such director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

Section 6. Effect of Amendment. Any amendment, repeal or modification of any provision of this Article VIII by the stockholders and the directors of the Corporation shall not adversely affect any right or protection of a director or officer of the Corporation existing at the time of such amendment, repeal or modification.

ARTICLE IX
AMENDMENTS

The Board of Directors is expressly empowered to adopt, amend or repeal By-Laws of the Corporation. Any adoption, amendment or repeal of By-Laws of the Corporation by the Board of Directors shall require the approval of a majority of the total number of authorized directors (whether or not there exist any

vacancies in previously authorized directorships at the time any resolution providing for adoption, amendment or repeal is presented to the Board). The

stockholders shall also have power to adopt, amend or repeal the By-Laws of the Corporation. In addition to any vote of the holders of any class or series of stock of this Corporation required by law or by these By-Laws, the affirmative vote of the holders of at least 66 2/3 percent of the voting power of all of the then-outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt, amend or repeal any provisions of the By-Laws of the Corporation.

CERTIFICATE OF SECRETARY

I hereby certify:

That I am the duly elected and acting Secretary of Chips and Technologies, Inc., a Delaware corporation; and

That the foregoing By-Laws comprising thirty (30) pages, constitute the original By-Laws of said corporation as duly adopted by the unanimous written consent of the directors of the corporation.

IN WITNESS WHEREOF, I have hereunder subscribed my name and affixed the seal of said corporation this 11th day of September, 1986.

Gary P. Martin, Secretary

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
CHIPS AND TECHNOLOGIES, INC.
(A Delaware Corporation)

Chips and Technologies, Inc., organized and existing under the General Corporation Law of the state of Delaware (the "Corporation"), does hereby certify:

FIRST: The Corporation has not received any payment for any of its stock.

SECOND: The amendment to the Corporation's Certificate of Incorporation set forth in the following resolution approved by a majority of the Corporation's Board of Directors was duly adopted in accordance with the provisions of Section 241 of the General Corporation Law of the state of Delaware:

"RESOLVED, that the Certificate of Incorporation of the corporation be amended by striking the currently effective Certificate of Incorporation in its entirety and replacing it with the Restated Certificate of Incorporation attached hereto as Exhibit A."

IN WITNESS WHEREOF, Chips and Technologies, Inc. has caused this Certificate to be signed and attested by its duly authorized officers on this 11th day of September, 1986.

CHIPS AND TECHNOLOGIES, INC.
A Delaware Corporation

By:_____
Gordon A. Campbell, President

ATTEST:

By:_____
Gary P. Martin, Secretary

AMENDED
CERTIFICATE OF INCORPORATION
OF
CHIPS AND TECHNOLOGIES, INC.

FIRST: The name of the Corporation is Chips and Technologies, Inc. (hereinafter sometimes referred to as the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of Delaware.

FOURTH:

A. The total number of shares of all classes of stock which the Corporation shall have authority to issue is forty million (40,000,000), consisting of:

(1) five million (5,000,000) shares of Preferred Stock, par value one cent ($.01) per share (the "Preferred Stock"); and

(2) thirty-five million (35,000,000) shares of Common Stock, par value one cent ($.01) per share (the "Common Stock").

B. The Board of Directors is authorized, subject to any limitations prescribed by law, to provide for the issuance of the shares of Preferred Stock in series, and by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences, and rights of the shares of each such series and any qualifications, limitations or restrictions thereon. The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the Common Stock, without a vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such holders is required pursuant to the certificate or certificates establishing the series of Preferred Stock.

FIFTH: The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

A. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authority expressly conferred upon them by Statute or by this Certificate of Incorporation or the By-Laws of the Corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation.

B. The directors of the Corporation need not be elected by written ballot unless the By-Laws so provide.

C. After the closing date of the first sale of the Corporation's Common Stock pursuant to a firmly underwritten registered public offering, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders. Prior to such sale, unless otherwise provided by law, any action which may otherwise be taken at any meeting of the stockholders may be taken

without a meeting and without prior notice, if a written consent describing such action is signed by the holders of outstanding shares having not less than the minimum number of votes which would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

D. Special meetings of stockholders of the Corporation may be called only (1) by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption) or (2) by the holders of not less than twenty percent (20%) of all of the shares entitled to cast votes at the meeting.

SIXTH:

A. The number of directors shall initially be three and, thereafter, shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption). The directors shall be elected at each annual meeting of shareholders, but if any annual meeting is not held, or the directors are not elected thereat, the directors may be elected at any special meeting of the shareholders held for that purpose. All directors shall hold office until the expiration of the term for which elected, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director.

B. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification or other cause (other than removal from office by a vote of the stockholders) may be filled only by a majority vote of the directors then in office though less than a

quorum, and directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

C. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any directors, or the entire Board of Directors, may be removed from office at any time, with or without cause, but only by the affirmative vote of the holders of at least a majority of the voting power of all of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class. Vacancies in the Board of Directors resulting from such removal may be

filled by the stockholders as provided in Article Sixth, Section A above or by a majority of the directors then in office, though less than a quorum. Directors so chosen shall hold office until the next annual meeting of stockholders.

SEVENTH: The Board of Directors is expressly empowered to adopt, amend or repeal By-laws of the Corporation. Any adoption, amendment or repeal of By-laws of the Corporation by the Board of Directors shall require the approval of a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any resolution providing for adoption, amendment or repeal is presented to the Board). The stockholders shall also have power to adopt, amend or repeal the By-laws of the Corporation. In addition to any vote of the holders of any class or series of stock of this Corporation required by law or by this Certificate of Incorporation, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt, amend or repeal any provisions of the By-laws of the Corporation.

EIGHTH: A director of this Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

If the Delaware General Corporation Law is hereafter amended to authorize the further elimination or limitation of the liability of a director, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

Any repeal or modification of the foregoing provisions of this Article EIGHTH by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

NINTH: The Board of Directors of the Corporation (the "Board"), when evaluating any offer of another party, (a) to make a tender or exchange offer for any Voting Stock of the Corporation (as defined in Article SIXTH) or (b) to effect any merger, consolidation, or sale of all or substantially all of the assets of the Corporation, shall, in connection with the exercise of its judgment in determining what is in the best interests of the Corporation as a whole, be authorized to give due consideration to such factors as the Board determines to be relevant, including, without limitation:

(i) the interests of the Corporation's stockholders;

(ii) whether the proposed transaction might violate federal or state laws;

(iii) not only the consideration being offered in the proposed transaction, in relation to the then current market price for the outstanding capital stock of the Corporation, but also to the market price for the capital stock of the Corporation over a period of years, the estimated price that might be achieved in a negotiated sale of the Corporation as a whole or in part or through orderly liquidation, the premiums over market price for the securities of other corporations in similar transactions, current political, economic and other factors bearing on securities prices and the Corporation's financial condition and future prospects; and

(iv) the social, legal and economic effects upon employees, suppliers, customers and others having similar relationships with the Corporation, and the communities in which the Corporation conducts its business.

In connection with any such evaluation, the Board is authorized to conduct such investigations and to engage in such legal proceedings as the Board may determine.

TENTH: The Corporation reserves the right to amend or repeal any provision contained in this Certificate of Incorporation in the manner prescribed by the laws of the State of Delaware and all rights conferred upon stockholders are granted subject to this reservation; provided, however, that, notwithstanding any other provision of this Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any vote of the holders of any class or series of the stock of this Corporation required by law or by this Certificate of Incorporation, the affirmative vote of the holders of at least 66-2/3% of the voting power of all of the then-outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend or repeal this Article TENTH, Article FIFTH, Article SEVENTH, Article EIGHTH or Article NINTH.

ELEVENTH: The name and mailing address of the incorporator is

Marta L. Morando, 400 Hamilton Avenue, Palo Alto, California 94301.

CERTIFICATE OF DESIGNATIONS,

PREFERENCES AND RIGHTS

SERIES A AND SERIES B PREFERRED STOCK

OF

CHIPS AND TECHNOLOGIES, INC.

Gordon A. Campbell and Gary P. Martin do hereby certify that:

1. They are the duly elected and acting President and Secretary, respectively, of Chips and Technologies, Inc., a Delaware corporation.

2. Pursuant to authority given by said corporation's Certificate of Incorporation, the Board of Directors of said corporation has duly adopted the following recitals and resolutions:

WHEREAS, the Certificate of Incorporation of this corporation provides for a class of its authorized shares known as Preferred Stock, comprising 5,000,000 shares issuable from time to time in one or more series; and

WHEREAS, the Board of Directors of this corporation is authorized to fix or alter the rights, preferences, privileges, and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock including but not limited to the dividend rights, dividend rate, conversion rights, voting rights, redemption, and the liquidation preferences, and the number of shares constituting any such series and the designation thereof, or any of them; and

WHEREAS, this corporation has not heretofore issued any of such Preferred Stock, and it is the desire of the Board of Directors of this corporation, pursuant to its authority as aforesaid, to fix the rights, preferences, restrictions and other matters relating to such series of said Preferred Stock and the number of shares constituting and the designation of two of such series;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors does hereby provide for the issue of 2,660,577 of the corporation's Preferred Stock designated as "Series A Preferred Stock" and 1,500,000 shares of the corporation's Preferred Stock designated as "Series B Preferred Stock" and does hereby fix the rights, privileges, preferences, restrictions and other matters relating to said Series A Preferred Stock and Series B Preferred Stock as follows:

1. Series A Preferred Stock. The initial series of Preferred Stock shall comprise 2,660,577 shares and shall be designated "Series A Preferred Stock." As used herein, the terms "Preferred Stock" or "preferred stock" without designation shall refer to shares of Series A and Series B Preferred Stock or to shares of any series and the term "Common Stock" shall refer to the corporation's Common Stock.

The rights, preferences, privileges and restrictions granted to or imposed on the Series A Preferred Stock are as follows:

(a) Dividends.

1. The holders of outstanding Series A Preferred Stock shall be entitled to receive in any fiscal year, when and as declared by the Board of Directors, out of any assets at the time legally available therefor, distributions (as defined below) at the rate of $0.06 per share of Series A Preferred Stock per annum, before any distribution is paid on the Common Stock. Each share of Preferred Stock shall rank on a parity with every share of Preferred Stock, irrespective of series, with regard to distributions at the respective rates fixed for such series, and no distributions shall be declared or paid or set apart for payment on the Preferred Stock of any series unless at the time of a distribution, a distribution shall also be declared or paid or set apart for payment, as the case may be, on the preferred stock of each other series then outstanding. All such distributions shall be declared pro rata according to the respective dividend rates of each series. The right to all such distributions on the Series A Preferred Stock shall not be cumulative and no right shall accrue to holders of said shares by reason of the fact that distributions on said shares are not declared in any prior year, nor shall any undeclared or unpaid distribution bear or accrue interest. After distributions shall have been paid to or declared and set apart upon the Preferred Stock, at the respective rate for each series, for any one fiscal year of the corporation, if the Board of Directors elects to declare additional distributions out of any assets legally available therefor, such additional distributions shall be declared on all shares of Preferred Stock and Common Stock, with the amount of such distribution for each share of Preferred Stock equal to the amount of such distribution for one share of Common Stock multiplied by the number of shares of Common Stock into which such share of Preferred Stock is convertible as of the record date fixed for declaration of such distribution.

2. For purposes of this paragraph (a), unless the context otherwise requires, "distribution" shall mean the transfer of cash or property without consideration, whether by way of dividend or otherwise, payable other than in Common Stock, or the purchase or redemption of shares of the corporation (other than redemptions set forth in paragraph (b) below or repurchases of Common Stock held by employees or consultants of the corporation upon termination of their employment or services pursuant to agreements providing for such repurchase) for cash or property, including any such transfer, purchase or redemption by a subsidiary of the corporation.

(b) Redemption.

1. At any time after October 31, 1990 upon the approval of the Board of Directors, or at such earlier time as may be approved in writing by the holders of at least a majority of the Series A Preferred Stock and the Board of Directors, the corporation may redeem all or a portion, as specified by such approval or in such writing, of the outstanding shares of the Series A Preferred Stock at the redemption price set forth in subparagraph (b)2 below, provided that the corporation shall give written notice (the "Redemption Notice") by mail, postage prepaid, to the holders of the Series A Preferred Stock to be redeemed at least thirty (30) days, but no more than sixty (60) days, prior to

the date specified for redemption (the "Redemption Date"). The Redemption Notice shall be addressed to each such stockholder at the address of such holder appearing on the books of the corporation or given by such holder to the corporation for the purpose of notice, or if no such address appears or is so given, at the place where the principal office of the corporation is located. The Redemption Notice shall state the Redemption Date, the Redemption Price (as hereinafter defined), the number of shares of Series A Preferred Stock of such holders to be redeemed and the date of termination of the right to convert the shares of Series A Preferred Stock of such holder to Common Stock pursuant to paragraph (e) hereof and shall call upon such holder to surrender to the corporation on the Redemption Date at the place designated in the notice such holder's certificate or certificates representing the shares to be redeemed. On or after the Redemption Date, each holder of shares of Series A Preferred Stock called for redemption shall surrender the certificate evidencing such shares to the corporation (except that such number of shares shall be reduced by the number of shares which have been converted between the date of notice and date on which the conversion rights terminate as provided in paragraph (e) below) at the place designated in such notice and shall thereupon be entitled to receive payment of the Redemption Price. If less than all of the outstanding shares of Series A Preferred Stock are to be redeemed, then the corporation shall redeem a pro rata portion from each holder of Series A Preferred Stock according to the respective number of shares of Series A Preferred Stock held by such holder.

2. The Series A Preferred Stock shall be redeemed at a cash price equal to Sixty-Five Cents ($0.65) per share, together with all declared and unpaid dividends to and including the Redemption Date (the "Redemption Price"); provided, however, that payment of the Redemption Price shall be made only from funds of the corporation legally available therefor.

3. Ten days prior to the Redemption Date, the corporation shall deposit the Redemption Price of all outstanding shares of Series A Preferred Stock designated for redemption in the Redemption Notice, and not yet redeemed or converted, with a bank or trust company having aggregate capital and surplus in excess of $50,000,000 as a trust fund for the benefit of the respective holders of the shares designated for redemption and not yet redeemed. Simultaneously, the corporation shall deposit irrevocable instruction and authority to such bank or trust company to publish the Redemption Notice (or to complete such publication if theretofore commenced) and to pay, on and after the

date fixed for redemption or prior thereto, the Redemption Price of the Series A Preferred Stock to the holders thereof upon surrender of their certificates. Any monies deposited by the corporation pursuant to this subparagraph (b)3 for the redemption of shares which are thereafter converted into shares of Common Stock pursuant to paragraph (e) hereof no later than the close of business on the fifth day prior to the Redemption Date shall be returned to the corporation forthwith upon such conversion. The balance of any moneys deposited by the corporation pursuant to this subparagraph (b)3 remaining unclaimed at the expiration of two years following the Redemption Date shall thereafter be returned to this corporation, provided that the stockholder to which such monies

would be payable hereunder shall be entitled, upon proof of its ownership of the Series A Preferred Stock and payment of any bond requested by the corporation, to receive such monies but without interest from the Redemption Date.

4. From and after the Redemption Date (unless default shall be made by the corporation in duly paying the Redemption Price in which case all the rights of the holders of such shares shall continue) the holders of the shares of the Series A Preferred Stock called for redemption shall cease to have any rights as stockholders of the corporation except the right to receive, without interest, the Redemption Price thereof as provided in subparagraph (b)3 above, and such shares shall not thereafter be transferred (except with the consent of the corporation) on the books of the corporation and shall not be deemed outstanding for any purpose whatsoever.

5. There shall be no redemption of any shares of Series A Preferred Stock of the corporation where such action would be in violation of applicable law, provided, however, that if at any time funds become legally available for redemption, such funds shall be used to redeem the Series A Preferred Stock.

(c) Preference on Liquidation.

1. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the corporation:

(i) The holders of shares of the Series A Preferred Stock then outstanding shall be entitled to be paid, out of the assets of the corporation available for distribution to its stockholders, whether from capital, surplus or earnings, before any payment shall be made in respect of the corporation's Common Stock, an amount equal to Sixty-Five Cents ($0.65) per share of Series A Preferred Stock, plus all declared and unpaid dividends thereon to the date fixed for distribution. If, upon liquidation, dissolution or winding up of the corporation, the assets of the corporation available for distribution to its stockholders shall be insufficient to pay the holders of all series of Preferred Stock, including Series A and all other series, the full amounts to which they shall be entitled, the holders of the Preferred Stock shall share ratably in any distribution of assets according to the respective amounts which would be payable in respect of the shares of Preferred Stock held by them upon such distribution if all amounts payable on or with respect to said shares were paid in full.

(ii) After setting apart or paying in full the preferential amounts due the holders of the Preferred Stock, the holders of Common Stock shall be entitled to receive an amount equal to $1.00 per share for each share of Common Stock held by them. If upon liquidation, dissolution or winding up of the corporation, the assets of the corporation available for distribution to its stockholders shall be insufficient to pay the holders of the Common Stock the full amounts to which they shall be entitled, the holders of the Common Stock

shall share ratably in any distribution of assets according to the respective amounts which would be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to said shares were paid in full.

(iii)After setting apart or paying in full the preferential amounts due the holders of the Preferred Stock and Common Stock, the remaining assets of the corporation available for distribution to stockholders, if any, shall be distributed to the holders of Preferred Stock and Common Stock, with the amount of such distribution for each share of Preferred Stock equal to the amount of such distribution for each share of Common Stock (each such issued and outstanding share of Common Stock entitling the holder thereof to receive an equal proportion of said remaining assets) multiplied by the number of shares of Common Stock into which such share of Preferred Stock is convertible as of the date fixed for such distribution.

2. The merger or consolidation of the corporation into or with another corporation or the sale of all or substantially all of the assets of the corporation shall not be deemed to be a liquidation, dissolution or winding up of the corporation as those terms are used in this paragraph (c).

3. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the corporation, the corporation shall, within ten (10) days after the date the Board of Directors approves such action, or twenty (20) days prior to any stockholders' meeting called to approve such action, or twenty (20) days after the commencement of any involuntary proceeding, whichever is earlier, give each holder of shares of Series A Preferred Stock initial written notice of the proposed action. Such initial written notice shall describe the material terms and conditions of such proposed action, including a description of the stock, cash and property to be received by the holders of shares of Series A Preferred Stock upon consummation of the proposed action and the date of delivery thereof. If any material change in the facts set forth in the initial notice shall occur, the corporation shall promptly give written notice to each holder of shares of Series A Preferred Stock of such material change.

4. The corporation shall not consummate any voluntary or involuntary liquidation, dissolution or winding up of the corporation before the expiration of thirty (30) days after the mailing of the initial notice or ten (10) days after the mailing of any subsequent written notice, whichever is later; provided that any such 30-day or 10-day period may be shortened upon the written consent of the holders of all of the outstanding shares of Series A Preferred Stock.

5. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the corporation which will involve the distribution of assets other than cash, the corporation shall promptly engage competent independent appraisers to determine the value of the assets to be distributed to

the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock (it being understood that with respect to the valuation of securities, the corporation shall engage such appraiser as shall be approved by the holders of a majority of shares of the corporation's outstanding Series A Preferred Stock). The corporation shall, upon receipt of such appraiser's valuation, give prompt written notice to each holder of shares of Series A Preferred Stock of the appraiser's valuation.

(d) Voting. Except as otherwise required by law or by the certificate of incorporation of the corporation, the shares of Series A Preferred Stock shall be voted equally with the shares of the corporation's Common Stock at any annual or special meeting of stockholders of the corporation, or may act by written consent in the same manner as the corporation's Common Stock, upon the following basis: each holder of shares of Series A Preferred Stock shall be entitled to such number of votes for the Series A Preferred Stock held by him on the record date fixed for such meeting, or on the effective date of such written consent, as shall be equal to the whole number of shares of the corporation's Common Stock into which his shares of Series A Preferred Stock are convertible immediately after the close of business on the record date fixed for such meeting or the effective date of such written consent.

(e) Conversion Rights. Each share of Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share and on or before the fifth day prior to a Redemption Date established pursuant to the terms of paragraph (b) hereof (the "Conversion Period") into fully paid and non-assessable shares of Common Stock of the corporation. Each share shall automatically be converted into fully paid and non-assessable shares of Common Stock of the corporation at any time during the Conversion Period immediately upon the closing of a sale of the corporation's Common Stock with an aggregate offering price of at least Five Million Dollars ($5,000,000) and an offering price per share of at least Five Dollars ($5.00), as adjusted by any stock split, stock dividend or other recapitalization of the outstanding shares of Common Stock, in an underwritten registered public offering. Each share of Series A Preferred Stock shall be valued at Sixty-Five Cents ($0.65) for purposes of such optional or automatic conversion, notwithstanding any accrued but unpaid dividends. The number of shares of Common Stock into which each share of Series A Preferred Stock may be converted shall be determined by dividing the value thereof ($0.65) by the Conversion Price determined as hereinafter provided in effect at the time of the conversion.

1. The Conversion Price per share at which shares of Common Stock shall be initially issuable upon conversion of any shares of Series A Preferred Stock shall be $0.65 subject to adjustment as provided in paragraph (f) hereof.

2. The holder of any shares of Series A Preferred Stock may exercise the conversion rights during the Conversion Period as to such shares or any part thereof by delivering to the corporation during regular business hours,

at the office of any transfer agent of the corporation for the Series A Preferred Stock, or at the principal office of the corporation or at such other place as may be designated by the corporation, the certificate or certificates for the shares to be converted, duly endorsed for transfer to the corporation (if required by it), accompanied by written notice stating that the holder elects to convert such shares. Conversion shall be deemed to have been effected on the date when such delivery is made, and such date is referred to herein as the "Conversion Date". As promptly as practicable thereafter, the corporation shall issue and deliver to, or upon the written order of (subject to any restrictions in any agreement between the holder and the corporation), such holder, at such office or other place designated by the corporation, a certificate or certificates for the number of full shares of Common Stock to which such holder is entitled and a check for cash with respect to any fractional interest in a share of Common Stock as provided in subparagraph (e)3 below. The holder shall be deemed to have become a stockholder of record on the applicable Conversion Date unless the transfer books of the corporation are closed on the date, in which event he shall be deemed to have become a stockholder of record on the next succeeding date on which the transfer books are open, but the Conversion Price shall be that in effect on the Conversion Date. Upon conversion of only a portion of the number of shares of Series A Preferred Stock represented by a certificate surrendered for conversion, the corporation shall issue and deliver to, or upon the written order of (subject to any restrictions in any agreement between the holder and the corporation), the holder of the certificate so surrendered for conversion, at the expense of the corporation, a new certificate covering the number of shares of Series A Preferred Stock representing the unconverted portion of the certificate so surrendered. If the conversion is in connection with an underwritten offering, such conversion will not be deemed to have occurred until immediately prior to the closing of such sale of securities.

3. No fractional shares of Common Stock or script shall be issued upon conversion of shares of Series A Preferred Stock. If more than one share of Series A Preferred Stock shall be surrendered for conversion at any one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Series A Preferred Stock so surrendered. Instead of any fractional shares of Common Stock which would otherwise be issuable upon conversion of any shares of Series A Preferred Stock, the corporation shall pay a cash adjustment in respect of such fractional interest, the value of which shall be determined in good faith by the Board of Directors of the corporation.

4. The corporation shall pay any and all issue and other taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of Series A Preferred Stock pursuant hereto. The corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that in which the Series A Preferred Stock so converted were registered, and no such issue or delivery shall be made unless and until the

person requesting such issue has paid to the corporation the amount of any such tax, or has established, to the satisfaction of the corporation, that such tax has been paid.

5. The corporation shall at all times reserve and keep available, out of its authorized but unissued Common Stock, solely for the purpose of effecting the conversion of the Series A Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all Series A Preferred Stock from time to time outstanding. The corporation shall from time to time (subject to obtaining necessary director and shareholder action), in accordance with the laws of the State of Delaware, increase the authorized amount of its Common Stock if at any time the authorized number of shares of its Common Stock remaining unissued shall not be sufficient to permit the conversion of all of the shares of convertible Series A Preferred Stock at the time outstanding.

6. All shares of Common Stock which may be issued upon conversion of the shares of Series A Preferred Stock will upon issuance by the corporation be validly issued, fully paid and non-assessable and free from all taxes, liens and charges with respect to the issuance thereof.

7. All certificates of the Series A Preferred Stock surrendered for conversion shall be appropriately cancelled on the books of the corporation.

(f) Adjustment of Conversion Prices.

1. In case the corporation shall at any time split or subdivide the outstanding shares of Common Stock, or shall issue a stock dividend on its outstanding Common Stock, the Conversion Price in effect immediately prior to such split or subdivision or the issuance of such dividend shall be proportionately decreased, and in case the corporation shall at any time combine the outstanding shares of Common Stock, the Conversion Price in effect immediately prior to such combination shall be proportionately increased, effective at the close of business on the date of such subdivision, dividend or combination, as the case may be.

2. In case of any capital reorganization or any reclassification of the capital stock of the corporation or in case of the consolidation or merger of the corporation with or into another corporation or the conveyance of all or substantially all of the assets of the corporation to another corporation, each share of Series A Preferred Stock shall thereafter be convertible into the number of shares of stock or other securities or property to which a holder of the number of shares of Common Stock of the corporation deliverable upon conversion of such Series A Preferred Stock would have been entitled upon such reorganization, reclassification, consolidation, merger or conveyance; and, in any such case, appropriate adjustment (as determined by the Board of Directors) shall be made in the application of the provisions herein set forth with respect to the rights and interests thereafter of the holders of the Series A Preferred Stock, to the end that the provisions set forth herein (including provisions with respect to changes in and other adjustments of the

Conversion Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any share of stock or other property thereafter deliverable upon the conversion of the Series A Preferred Stock.

3. In case:

(i) the corporation shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend, or any other distribution, payable otherwise than in cash; or

(ii) the corporation shall take a record of the holders of its Common Stock for the purpose of entitling them to subscribe for or purchase any shares of stock of any class or to receive any other rights; or

(iii) of any capital reorganization of the corporation, reclassification of the capital stock of the corporation (other than a subdivision or combination of its outstanding shares of Common Stock), consolidation or merger of the corporation with or into another corporation or conveyance of all or substantially all of the assets of the corporation to another corporation;

then, and in any such case, the corporation shall cause to be mailed to the transfer agent for the Series A Preferred Stock, and to the holders of record of the outstanding Series A Preferred Stock, at least ten (10) days prior to the date hereinafter specified, a notice stating the date on which (x) a record is to be taken for the purpose of such dividend, distribution or rights, or (y) such reclassification, reorganization, consolidation, merger or conveyance is to take place and the date, if any, is to be fixed, as of which holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger or conveyance.

4. If the corporation shall issue any Additional Stock (as defined below) without consideration or for a consideration per share less than the Conversion Price for the Series A Preferred Stock in effect immediately prior to the issuance of such Additional Stock, the Conversion Price for the Series A Preferred Stock in effect immediately prior to each such issuance shall forthwith (except as otherwise provided in this subparagraph (f)4) be adjusted to a price equal to the quotient obtained by dividing:
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(i) an amount equal to the sum of (x) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the then existing Conversion Price of the Series A Preferred Stock, (y) the number of shares of Common Stock issuable upon conversion or exchange of any obligations or of any shares of stock or upon exercise of rights or options to purchase any shares of stock of the corporation outstanding immediately prior to such issue or sale multiplied by the then existing

Conversion Price of the Series A Preferred Stock, and (z) an amount equal to the aggregate consideration received by the corporation upon such issue or sale by;

(ii) the sum of the number of shares of Common Stock outstanding immediately after such issue or sale and the number of shares of Common Stock issuable upon conversion or exchange based upon the conversion prices and exchange rates existing immediately prior to such issue or sale, of any obligations or of any shares of stock or upon exercise, of rights or options to purchase any shares of stock of the corporation outstanding immediately after such issue or sale.

For purposes of this subparagraph (f)4, the following provisions shall be applicable:

(A) No adjustment of the Conversion Price for the Series A Preferred Stock shall be made in an amount less than one cent per share, provided that any adjustments which are not required to be made by reason of this sentence shall be carried forward and shall be either taken into account in any subsequent adjustment made prior to 3 years from the date of the event giving rise to the adjustment being carried forward, or shall be made at the end of 3 years from the date of the event giving rise to the adjustment being carried forward. Except to the limited extent provided for in subparagraphs (f)4(D)3 and (f)4(D)4, no adjustment of such Conversion Price pursuant to this subparagraph (f)4 shall have the effect of increasing the Conversion Price above the Conversion Price in effect immediately prior to such adjustment.

(B) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by this corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(C) In the case of the issuance of the Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Board of Directors irrespective of any accounting treatment.

(D) In the case of the issuance of options to purchase or rights to subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock or options to purchase or rights to subscribe for such convertible or exchangeable securities (which are not excluded from the definition of Additional Stock), the following provisions shall apply:

1. The aggregate maximum number of shares of Common Stock deliverable upon exercise of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in subparagraphs (f)4(B) and (f)4(C)), if

any, received by the corporation upon the issuance of such options or rights plus the minimum purchase price provided in such options or rights for the Common Stock covered thereby.

2. The aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued and for consideration equal to the consideration, if any, received by the corporation for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by the corporation upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in subparagraphs (f)4(B) and (f)4(C)).

3. In the event of any change in the number of shares of Common Stock deliverable or any increase in the consideration payable to this corporation upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the antidilution provisions thereof, the Conversion Price of the Series A Preferred Stock obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities, and any subsequent adjustments based hereon, shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities.

4. Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price of the Series A Preferred Stock obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities or options or rights related to such securities, and any subsequent adjustments based thereon, shall be recomputed to reflect the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities.

(E) "Additional Stock" shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to subparagraph (f)4(D)) by the corporation before or after the Purchase Date other than

1. Common Stock issued pursuant to a transaction described in subparagraph (f)l hereof,

2. Shares of Common Stock issuable or issued to directors, officers, employees or consultants of this corporation directly or pursuant to a stock option plan or restricted stock plan approved by the Board of Directors of this corporation or the Compensation Committee thereof at any time when the total number of shares of Common Stock so issuable or issued (and not repurchased by the corporation in connection with the termination of employment) does not exceed 7,400,000, or

3. Common Stock issued or issuable upon conversion of Preferred Stock.

(g) Changes Affecting Series A. So long as any shares of Series A Preferred Stock are outstanding, the corporation shall not, without first obtaining the approval by vote or written consent, in the manner provided by law, of the holders of at least a majority of the total number of shares of Series A Preferred Stock outstanding, voting separately as a class, (1) alter or change any of the powers, preferences, privileges or rights of the Series A Preferred Stock, (2) amend the provisions of this paragraph (g), or (3) create any new class or series of shares having preferences prior to the Series A Preferred Stock as to dividends or assets.

(h) Status of Converted or Redeemed Stock. In case any shares of Series A Preferred Stock shall be converted or redeemed pursuant to paragraph (b) or paragraph (e) hereof, the shares so converted or redeemed shall resume the status of authorized but unissued shares of preferred stock. Such shares shall reduce the number of authorized shares of Series A Preferred Stock and this Certificate of Designations, Preferences and Rights shall be appropriately amended to effect such reduction.

2. Series B Preferred Stock. The second series of Preferred Stock shall comprise 1,500,000 shares and shall be designated "Series B Preferred Stock." The rights, preferences, privileges and restrictions granted to or imposed on the Series B Preferred Stock are as follows:

(a) Dividends.

1. The holders of outstanding Series B Preferred Stock shall be entitled to receive in any fiscal year, when and as declared by the Board of Directors, out of any assets at the time legally available therefor, distributions (as defined below) at the rate of $0.10 per share of Series B Preferred Stock per annum, before any distribution is paid on the Common Stock. Each share of Preferred Stock shall rank on a parity with every other share of Preferred Stock, irrespective of series, with regard to distributions at the respective rates fixed for such series, and no distributions shall be declared or paid or set apart for payment on the Preferred Stock of any series unless at the time of a distribution, a distribution shall also be declared or paid or set apart for payment, as the case may be, on the preferred shares of each other series then outstanding. All such distributions shall be declared pro rata

according to the respective dividend rates of each series. The right to all such distributions on the Series B Preferred Stock shall not be cumulative and no right shall accrue to holders of said shares by reason of the fact that distribution on said shares are not declared in any prior year, nor shall any undeclared or unpaid distribution bear or accrue interest. After distributions shall have been paid to or declared and set apart upon the Preferred Stock, at the respective rate for each series, for any one fiscal year of the corporation, if the Board of Directors elects to declare additional distributions out of any

assets legally available therefor, such additional distributions shall be declared on all shares of Preferred Stock and Common Stock, with the amount of such distribution for each share of Preferred Stock equal to the amount of such distribution for one share of Common Stock multiplied by the number of shares of Common Stock into which such share of Preferred Stock is convertible as of the record date fixed for declaration of such distribution.

2. For purposes of this paragraph (a), unless the context otherwise requires, "distribution" shall mean the transfer of cash or property without consideration, whether by way of dividend or otherwise, payable other than in Common Stock, or the purchase or redemption of shares of the corporation (other than redemptions set forth in Section (b) below or repurchases of Common Stock held by employees or consultants of the corporation upon termination of their employment or services pursuant to agreements providing for such repurchase) for cash or property, including any such transfer, purchase or redemption by a subsidiary of the corporation.

(b) Redemption.

1. At any time after October 31, 1990 upon the approval of the Board of Directors or at such earlier time as may be approved in writing by the holders of at least a majority of the outstanding shares of Series B Preferred Stock and the Board of Directors, the corporation shall redeem all or a portion, as specified by such approval or in such writing, of the outstanding shares of the Series B Preferred Stock at the redemption price set forth in subparagraph (b)2 below, provided that the corporation shall give written notice (the "Redemption Notice") by mail, postage prepaid, to the holders of the Series B Preferred Stock to be redeemed at least thirty (30) days, but no more than sixty (60) days, prior to the date specified for redemption (the "Redemption Date"). The Redemption Notice shall be addressed to each such Stockholder at the address of such holder appearing on the books of the corporation or given by such holder to the corporation for the purpose of notice, or if no such address appears or is so given, at the place where the principal office of the corporation is located. The Redemption Notice shall state the Redemption Date, the Redemption Price (as hereinafter defined), the number of shares of Series B Preferred Stock of such holders to be redeemed and the date of termination of the right to convert the shares of Series B Preferred Stock of such holder to Common Stock pursuant to paragraph (e) hereof and shall call upon such holder to surrender to the corporation on the Redemption Date at the place designated in the notice such holder's certificate or certificates representing the shares to be

redeemed. On or after the Redemption Date, each holder of shares of Series B Preferred Stock called for redemption shall surrender the certificate evidencing such shares to the corporation (except that such number of shares shall be reduced by the number of shares which have been converted between the date of notice and date on which the conversion rights terminate as provided in Paragraph (e) below) at the place designated in such notice and shall thereupon be entitled to receive payment of the Redemption Price. If less than all of the outstanding shares of Series B Preferred Stock are to be redeemed, then the corporation shall redeem a pro rata portion from each holder of Series B Preferred Stock according to the respective number of shares of Series B Preferred Stock held by such holder.

2. The Series B Preferred Stock shall be redeemed at a cash price equal to One Dollar ($1.00) per share, together with all declared and unpaid dividends to and including the Redemption Date (the "Redemption Price"); provided, however, that payment of the Redemption Price shall be made only from funds of the corporation legally available therefor.

3. Ten days prior to the Redemption Date, the corporation shall deposit the Redemption Price of all outstanding shares of Series B Preferred Stock designated for redemption in the Redemption Notice, and not yet redeemed or converted, with a bank or trust company having aggregate capital and surplus in excess of $50,000,000 as a trust fund for the benefit of the respective holders of the shares designated for redemption and not yet redeemed. Simultaneously, the corporation shall deposit irrevocable instruction and authority to such bank or trust company to publish the Redemption Notice (or to complete such publication if theretofore commenced) and to pay, on and after the date fixed for redemption or prior thereto, the Redemption Price of the Series B Preferred Stock to the holders thereof upon surrender of their certificates. Any monies deposited by the corporation pursuant to this subparagraph (b)3 for the redemption of shares which are thereafter converted into shares of Common Stock pursuant to paragraph (e) hereof no later than the close of business on the fifth day prior to the Redemption Date shall be returned to the corporation forthwith upon such conversion. The balance of any moneys deposited by the corporation pursuant to this subparagraph (b)3 remaining unclaimed at the expiration of two years following the Redemption Date shall thereafter be returned to this corporation, provided that the stockholder to which such monies would be payable hereunder shall be entitled, upon proof of its ownership of the Series B Preferred Stock and payment of any bond requested by the corporation, to receive such monies but without interest from the Redemption Date.

4. From and after the Redemption Date (unless default shall be made by the corporation in duly paying the Redemption Price in which case all the rights of the holders of such shares shall continue) the holders of the shares of the Series B Preferred Stock called for redemption shall cease to have any rights as stockholders of the corporation except the right to receive, without interest, the Redemption Price thereof as provided in subparagraph (b)3

above, and such shares shall not thereafter be transferred (except with the consent of the corporation) on the books of the corporation and shall not be deemed outstanding for any purpose whatsoever.

5. There shall be no redemption of any shares of Series B Preferred Stock of the corporation where such action would be in violation of applicable law.

(c) Preference on Liquidation.

1. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the corporation:

(i) The holders of shares of the Preferred Stock then outstanding shall be entitled to be paid, out of the assets of the corporation available for distribution to its stockholders, whether from capital, surplus or earnings, before any payment shall be made in respect of the corporation's Common Stock, an amount equal to Sixty-Five Cents ($0.65) per share of Series A Preferred Stock and One Dollar ($1.00) per share of Series B Preferred Stock, plus all declared and unpaid dividends thereon to the date fixed for distribution. If, upon liquidation, dissolution or winding up of the corporation, the assets of the corporation available for distribution to its stockholders shall be insufficient to pay the holders of the Preferred Stock the full amounts to which they shall be entitled, the holders of the Preferred Stock shall share ratably in any distribution of assets according to the respective amounts which would be payable in respect of the shares of Preferred Stock held by them upon such distribution if all amounts payable on or with respect to said shares were paid in full.

(ii) After setting apart or paying in full the preferential amounts due the holders of the Preferred Stock, the holders of Common Stock shall be entitled to receive an amount equal to $1.00 per share for each share of Common Stock held by them. If upon liquidation, dissolution or winding up of the corporation, the assets of the corporation available for distribution to its stockholders shall be insufficient to pay the holders of the Common Stock the full amounts to which they shall be entitled, the holders of the Common Stock shall share ratably in any distribution of assets according to the respective amounts which would be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to said shares were paid in full.

(iii) After setting apart or paying in full the preferential amounts due the holders of the Preferred Stock and Common Stock, the remaining assets of the corporation available for distribution to stockholders, if any, shall be distributed to the holders of Preferred Stock and Common Stock, with the amount of such distribution for each share of Preferred Stock equal to the amount of such distribution for each share of Common Stock (each such issued and outstanding share of Common Stock entitling the holder thereof to receive an

equal proportion of said remaining assets) multiplied by the number of shares of Common Stock into which such share of Preferred Stock is convertible as of the date fixed for such distribution.

2. The merger or consolidation of the corporation into or with another corporation or the sale of all or substantially all of the assets of the corporation shall not be deemed to be a liquidation, dissolution or winding up of the corporation as those terms are used in this paragraph (c).

3. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the corporation, the corporation shall, within ten (10) days after the date the Board of Directors approves such action, or twenty (20) days prior to any stockholders' meeting called to approve such action, or twenty (20) days after the commencement of any involuntary proceeding, whichever is earlier, give each holder of shares of Series B Preferred Stock initial written notice of the proposed action. Such initial written notice shall describe the material terms and conditions of such proposed action, including a description of the stock, cash and property to be received by the holders of shares of Series B Preferred Stock upon consummation of the proposed action and the date of delivery thereof. If any material change in the facts set forth in the initial notice shall occur, the corporation shall promptly give written notice to each holder of shares of Series B Preferred Stock of such material change.

4. The corporation shall not consummate any voluntary or involuntary liquidation, dissolution or winding up of the corporation before the expiration of thirty (30) days after the mailing of the initial notice or ten (10) days after the mailing of any subsequent written notice, whichever is later; provided that any such 30-day or 10-day period may be shortened upon the written consent of the holders of all of the outstanding shares of Series B Preferred Stock.

5. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the corporation which will involve the distribution of assets other than cash, the corporation shall promptly engage competent independent appraisers to determine the value of the assets to be distributed to the holders of shares of Series B Preferred Stock and the holders of shares of Common Stock (it being understood that with respect to the valuation of securities, the corporation shall engage such appraiser as shall be approved by the holders of a majority of shares of the corporation's outstanding Series B Preferred Stock). The corporation shall, upon receipt of such appraiser's valuation, give prompt written notice to each holder of shares of Series B Preferred Stock of the appraiser's valuation.

(d) Voting.

1. Except as otherwise required by law or by the certificate of incorporation of the corporation, the shares of Series B Preferred Stock shall

be voted equally with the shares of the corporation's Common Stock at any annual or special meeting of stockholders of the corporation, or may act by written consent in the same manner as the corporation's Common Stock, upon the following basis: each holder of shares of Series B Preferred Stock shall be entitled to such number of votes for the Series B Preferred Stock held by him on the record date fixed for such meeting, or on the effective date of such written consent, as shall be equal to the whole number of shares of the corporation's Common Stock into which his shares of Series B Preferred Stock are convertible immediately after the close of business on the record date fixed for such meeting or the effective date of such written consent.

2. In addition to the rights specified in subparagraph (d)1, the holders of Series B Preferred Stock, voting separately as one class, shall have the exclusive and special right to elect one of the members of the Board of Directors of the corporation but shall not be entitled to vote for the remaining directors of the corporation. The special and exclusive voting right of the holders of the Series B Preferred Stock, voting separately as a class pursuant to this subparagraph (d)2, may be exercised by unanimous written consent in lieu of a meeting, or by a vote at any annual or special meeting of the stockholders of the corporation, or by a vote at a special meeting of the holders of Series B Preferred Stock called as provided below. The director to be elected by the holders of Series B Preferred Stock, voting separately as one class pursuant to this subparagraph (d)2, shall serve for a term extending from the date of his election and qualification until the time of the next succeeding annual meeting of stockholders and until his successor has been elected and qualified.

3. If at any time the directorship to be filled pursuant to the special voting rights set forth in subparagraph (d)2 has been vacant for a period of ten days, the Secretary of the corporation shall, upon the written request of the holders of record of shares representing more than 10% of the outstanding voting power of the Series B Preferred Stock, call a special meeting of the holders of such class for the purpose of electing a director or directors to fill such vacancy or vacancies. Such meeting shall be held at the earliest practicable date at such place as is specified in or determined in accordance with the Bylaws of the corporation. If such meeting shall not have been called by the Secretary of the corporation within ten days after personal service of said written request on him, then the holders of record of shares representing at least 10% of the outstanding voting power of the Series B Preferred Stock may designate in writing one of their number to call such meeting at the expense of the corporation, and such meeting may be called by such persons so designated upon the notice required for annual meetings of stockholders and shall be held at such specified place. Any stockholder designated as above to call such meeting shall have access to the stock books of the corporation for the purpose of calling such meeting pursuant to these provisions.

4. At any meeting held for the purpose of electing directors pursuant to the special voting rights set forth in subparagraph (d)2, the presence, in person or by proxy, of the holders of a majority of the Series B

Preferred Stock then outstanding shall be required to constitute a quorum of such class. At such meeting or adjournment thereof, the absence of a quorum of one class shall not prevent the election of directors by the other class. In the absence of either or both of such quorums, the holders of a majority of the shares of the class of stock lacking a quorum, present in person or by proxy, shall have power to adjourn the meeting without notice other than announcement at the meeting.

(e) Conversion Rights. Each share of Series B Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share and on or before the fifth day prior to a Redemption Date established pursuant to the terms of paragraph (b) hereof (the "Conversion Period") into fully paid and non-assessable shares of Common Stock of the corporation. Each share shall automatically be converted into fully paid and

non-assessable shares of Common Stock of the corporation at any time during the Conversion Period immediately upon the closing of a sale of the corporation's Common Stock with an aggregate offering price of at least Five Million Dollars ($5,000,000) and an offering price per share of at least Five Dollars ($5.00), as adjusted by any stock split, stock dividend or other recapitalization of the outstanding shares of Common Stock, in an underwritten registered public offering. Each share of Series B Preferred Stock shall be valued at One Dollar ($1.00) for purposes of such optional or automatic conversion, notwithstanding any accrued but unpaid dividends. The number of shares of Common Stock into which each share of Series B Preferred Stock may be converted shall be determined by dividing the value thereof ($1.00) by the Conversion Price determined as hereinafter provided in effect at the time of the conversion.

1. The Conversion Price per share at which shares of Common Stock shall be initially issuable upon conversion of any shares of Series B Preferred Stock shall be $1.00 subject to adjustment as provided in paragraph (f) hereof.

2. The holder of any shares of Series B Preferred Stock may exercise the conversion rights during the Conversion Period as to such shares or any part thereof by delivering to the corporation during regular business hours, at the office of any transfer agent of the corporation for the Series B Preferred Stock, or at the principal office of the corporation or at such other place as may be designated by the corporation, the certificate or certificates for the shares to be converted, duly endorsed for transfer to the corporation (if required by it), accompanied by written notice stating that the holder elects to convert such shares. Conversion shall be deemed to have been effected on the date when such delivery is made, and such date is referred to herein as the "Conversion Date". As promptly as practicable thereafter, the corporation shall issue and deliver to, or upon the written order of (subject to any restrictions in any agreement between the holder and the corporation), such holder, at such office or other place designated by the corporation, a certificate or certificates for the number of full shares of Common Stock to

which such holder is entitled and a check for cash with respect to any fractional interest in a share of Common Stock as provided in subparagraph (e)3 below. The holder shall be deemed to have become a stockholder of record on the applicable Conversion Date unless the transfer books of the corporation are closed on the date, in which event he shall be deemed to have become a stockholder of record on the next succeeding date on which the transfer books are open, but the Conversion Price shall be that in effect on the Conversion Date. Upon conversion of only a portion of the number of shares of Series B Preferred Stock represented by a certificate surrendered for conversion, the corporation shall issue and deliver to, or upon the written order of (subject to any restrictions in any agreement between the holder and the corporation), the holder of the certificate so surrendered for conversion, at the expense of the corporation, a new certificate covering the number of shares of Series B Preferred Stock representing the unconverted portion of the certificate so surrendered. If the conversion is in connection with an underwritten offering, such conversion will not be deemed to have occurred until immediately prior to the closing of such sale of securities.

3. No fractional shares of Common Stock or script shall be issued upon conversion of shares of Series B Preferred Stock. If more than one share of Series B Preferred Stock shall be surrendered for conversion at any one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Series B Preferred Stock so surrendered. Instead of any fractional shares of Common Stock which would otherwise be issuable upon conversion of any shares of Series B Preferred Stock, the corporation shall pay a cash adjustment in respect of such fractional interest, the value of which shall be determined in good faith by the Board of Directors of the corporation.

4. The corporation shall pay any and all issue and other taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of Series B Preferred Stock pursuant hereto. The corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that in which the Series B Preferred Stock so converted were registered, and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the corporation the amount of any such tax, or has established, to the satisfaction of the corporation, that such tax has been paid.

5. The corporation shall at all times reserve and keep available, out of its authorized but unissued Common Stock, solely for the purpose of effecting the conversion of the Series B Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all Series B Preferred Stock from time to time outstanding. The corporation shall from time to time (subject to obtaining necessary director and shareholder action), in

accordance with the laws of the State of Delaware, increase the authorized amount of its Common Stock if at any time the authorized number of shares of its Common Stock remaining unissued shall not be sufficient to permit the conversion of all of the shares of convertible Series B Preferred Stock at the time outstanding.

6. All shares of Common Stock which may be issued upon conversion of the shares of Series B Preferred Stock will upon issuance by the corporation be validly issued, fully paid and non-assessable and free from all taxes, liens and charges with respect to the issuance thereof.

7. All certificates of the Series B Preferred Stock surrendered for conversion shall be appropriately cancelled on the books of the corporation.

(f) Adjustment of Conversion Prices.

1. In case the corporation shall at any time split or subdivide the outstanding shares of Common Stock, or shall issue a stock dividend on its outstanding Common Stock, the Conversion Price in effect immediately prior to such split or subdivision or the issuance of such dividend shall be proportionately decreased, and in case the corporation shall at any time combine

the outstanding shares of Common Stock, the Conversion Price in effect immediately prior to such combination shall be proportionately increased, effective at the close of business on the date of such subdivision, dividend or combination, as the case may be.

2. In case of any capital reorganization or any reclassification of the capital stock of the corporation or in case of the consolidation or merger of the corporation with or into another corporation or the conveyance of all or substantially all of the assets of the corporation to another corporation, each share of Series B Preferred Stock shall thereafter be convertible into the number of shares of stock or other securities or property to which a holder of the number of shares of Common Stock of the corporation deliverable upon conversion of such Series B Preferred Stock would have been entitled upon such reorganization, reclassification, consolidation, merger or conveyance; and, in any such case, appropriate adjustment (as determined by the Board of Directors) shall be made in the application of the provisions herein set forth with respect to the rights and interests thereafter of the holders of the Series B Preferred Stock, to the end that the provisions set forth herein (including provisions with respect to changes in and other adjustments of the Conversion Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any share of stock or other property thereafter deliverable upon the conversion of the Series B Preferred Stock.

3. In case:

(i) the corporation shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend, or any other distribution, payable otherwise than in cash; or

(ii) the corporation shall take a record of the holders of its Common Stock for the purpose of entitling them to subscribe for or purchase any shares of stock of any class or to receive any other rights; or

(iii) of any capital reorganization of the corporation, reclassification of the capital stock of the corporation (other than a subdivision or combination of its outstanding shares of Common Stock), consolidation or merger of the corporation with or into another corporation or conveyance of all or substantially all of the assets of the corporation to another corporation;

then, and in any such case, the corporation shall cause to be mailed to the transfer agent for the Series B Preferred Stock, and to the holders of record of the outstanding Series B Preferred Stock, at least ten (10) days prior to the date hereinafter specified, a notice stating the date on which (x) a record is to be taken for the purpose of such dividend, distribution or rights, or (y) such reclassification, reorganization, consolidation, merger or conveyance is to take place and the date, if any is to be fixed, as of which holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger or conveyance.

4. If the corporation shall issue any Additional Stock (as defined below) without consideration or for a consideration per share less than the Conversion Price for the Series B Preferred Stock in effect immediately prior to the issuance of such Additional Stock, the Conversion Price for the Series B Preferred Stock in effect immediately prior to each such issuance shall forthwith (except as otherwise provided in this clause (i)) be adjusted to a price equal to the quotient obtained by dividing the total computed under clause (x) below by the total computed under clause (y) below as follows:

(x) an amount equal to the sum of

(1) the aggregate purchase price of the shares of the Series B Preferred Stock sold pursuant to that Series B Preferred Stock Purchase Agreement between the corporation and the investors named therein dated on or around October 10, 1985 (the "Stock Purchase Agreement"), plus

(2) the aggregate consideration, if any, received by the corporation for all Additional Stock issued since the date of the Stock Purchase Agreement (the "Purchase Date");

(y) an amount equal to the sum of

(1) the aggregate purchase price of the shares of Series B Preferred Stock sold pursuant to the Stock Purchase Agreement divided by the Conversion Price for such shares in effect at the Purchase Date (or such higher or lower Conversion Price for such series as results from the application of subparagraphs f(l) and f(2) and assuming that this Certificate in effect as of the Purchase Date) plus

(2) the number of shares of Additional Stock issued since the Purchase Date (increased or decreased to the extent that the number of such shares of Additional Stock shall have been increased or decreased as the result of any stock splits, stock dividends, combinations, capital reorganizations or reclassifications).

For purposes of this subparagraph (f)4, the following provisions shall be applicable:

(A) No adjustment of the Conversion Price for the Series B Preferred Stock shall be made in an amount less than one cent per share, provided that any adjustments which are not required to be made by reason of this sentence shall be carried forward and shall be either taken into account in any subsequent adjustment made prior to 3 years from the date of the event giving rise to the adjustment being carried forward. Except to the limited extent provided for in subparagraphs (f)4(D)3 and (f)4(D)4, no adjustment of such Conversion Price pursuant to this subparagraph (f)4 shall have the effect of increasing the Conversion Price above the Conversion Price in effect immediately prior to such adjustment.

(B) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by the corporation for any issuance and sale thereof.

(C) In the case of the issuance of the Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Board of Directors irrespective of any accounting treatment.

(D) In the case of the issuance of options to purchase or rights to subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock or options to purchase or rights to subscribe for such convertible or exchangeable securities (which are not excluded from the definition of Additional Stock), the following provisions shall apply:

1. The aggregate maximum number of shares of Common Stock deliverable upon exercise of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such

options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in subparagraphs (f)4(B) and (f)4(C)), if any, received by the corporation upon the issuance of such options or rights plus the minimum purchase price provided in such options or rights for the Common Stock covered thereby.

2. The aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued and for consideration equal to the consideration, if any, received by the corporation for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by the corporation upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in subparagraphs (f)4(B) and (f)4(C)).

3. In the event of any change in the number of shares of Common Stock deliverable or any increase in the consideration payable to this corporation upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the antidilution provision thereof, the Conversion Price of the Series B Preferred Stock obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities, and any subsequent adjustments based thereon, shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise

of any such options or rights or the conversion or exchange of such securities.

4. Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price of the Series B Preferred Stock obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities or options or rights related to such securities, and any subsequent adjustments based thereon, shall be recomputed to reflect the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities.

E. "Additional Stock" shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to subparagraph (f)4(D)) by the corporation before or after the Purchase Date other than

1. Common Stock issued pursuant to a transaction described in subparagraph (f)1 hereof,

2. Shares of Common Stock issuable or issued to directors, officers, employees or consultants of this corporation directly or pursuant to a stock option plan or restricted stock plan approved by the Board of Directors of this corporation or the Compensation Committee thereof at any time when the total number of shares of Common Stock so issuable or issued (and not repurchased by the corporation in connection with the termination of employment for the same or lesser price than the price at which such shares were issued) does not exceed 5,950,000,

3. Common Stock issued or issuable upon conversion of Series B Preferred Stock, or

4. Common Stock issued or issuable upon conversion of a maximum of 2,660,577 shares of Series A Preferred Stock.

(g) Changes Affecting Series B. So long as any shares of Series B Preferred Stock are outstanding, the corporation shall not, without first obtaining the approval by vote or written consent, in the manner provided by law, of the holders of at least a majority of the total number of shares of Series B Preferred Stock outstanding, voting separately as a class, (1) alter or change any of the powers, preferences, privileges or rights of the Series B Preferred Stock, (2) amend the provisions of this paragraph (g), (3) create any new class or series of shares having preferences prior to or being on a parity with the Series B Preferred Stock as to dividends or assets, (4) increase the authorized number of shares of Series B Preferred Stock, (5) sell, lease, convey, exchange, transfer or otherwise dispose of all or substantially all of its assets (other than for the purposes of securing payment of any contract or obligation), or (6) merge or consolidate with or into any other corporation

except into or with a wholly owned subsidiary.

(h) Status of Converted or Redeemed Stock. In case any shares of Series B Preferred Stock shall be converted or redeemed pursuant to paragraph (b) or paragraph (e) hereof, the shares so converted or redeemed shall resume the status of authorized but unissued shares of preferred stock. Such shares shall reduce the number of authorized shares of Series B Preferred Stock and this Certificate of Determination shall be appropriately amended to effect such reduction.

RESOLVED FURTHER, that the President or any Vice president, and the Secretary or any Assistant Secretary, of this corporation be, and they hereby are, authorized and directed to execute, acknowledge, file and record a certificate of determination of preferences in accordance with the foregoing resolutions and the provisions of California law.

3. The authorized number of shares of Series A Preferred Stock is 2,660,557 none of which has been issued. The authorized number of shares of Series B Preferred Stock is 1,500,000 none of which has been issued.

IN WITNESS WHEREOF, said CHIPS AND TECHNOLOGIES, INC. has caused this Certificate of Designations, Preferences and Rights of Series A and Series B Preferred Stock to be duly executed by its President and attested to by its Secretary, and has caused its corporate seal to be affixed thereto, this 11th day of September, 1986.

_____
Gordon A. Campbell, President

_____
Gary P. Martin, Secretary

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (hereinafter called the "Merger Agreement") is made as of August 28, 1986 by and between CHIPS AND TECHNOLOGIES, INC., a California corporation ("Chips California") and, CHIPS AND TECHNOLOGIES, INC., a Delaware corporation and a wholly-owned subsidiary of Chips California ("Chips Delaware").

RECITALS

A. The Board of Directors of Chips California and the Board of Directors of Chips Delaware deem it advisable that Chips California merge into Chips Delaware pursuant to the Delaware General Corporation Law (the "Delaware Law") and the California Corporations Code (the "California Law"), and the Board of Directors of each of such corporations has approved this Agreement.

B. The Board of Directors of Chips California has directed that this Agreement be submitted to a vote of Chips California shareholders at the 1986 Annual Meeting of Shareholders to be held prior to the consummation of the transaction described herein.

C. The Board of Directors of Chips Delaware has directed that this Agreement be submitted to its sole shareholder, Chips California, and said sole shareholder is expected to adopt and approve this Agreement by written consent.

NOW, THEREFORE, the parties do hereby adopt the plan of reorganization encompassed by this Merger Agreement and do hereby agree that Chips California shall merge into Chips Delaware on the following terms, conditions and other provisions:

I. TERMS AND CONDITIONS

1.1 Merger. Chips California shall be merged with and into Chips Delaware, and Chips Delaware shall be the surviving corporation (the "Merger"), effective upon the date when a duly executed copy of this Merger Agreement, along with all required officers' certificates, is filed with the Secretary of State of the State of California and with the Secretary of State of the State of Delaware (the "Effective Date").

1.2 Effect of Merger.

(a) On the Effective Date, the separate corporate existence of Chips California shall cease, and the corporate existence of Chips Delaware, as governed by the Delaware Law, shall continue unimpaired and unaffected by the Merger. Chips Delaware shall succeed to all of the rights, privileges, powers and property of Chips California in the manner provided in and as more fully set forth in Section 259 of the General Corporation Law of the State of Delaware.

(b) On the Effective Date, each share of each class of Chips California capital stock issued and outstanding shall be converted by reason of the Merger and without any action on the part of the holders thereof into and become one share of Chips Delaware capital stock of the same class. The shares of Chips California Stock so converted shall cease to exist as such and shall exist only as shares of Chips Delaware capital stock.

1.3 Stock Certificates. On and after the Effective Date, all of the outstanding certificates which prior to that time represented shares of the capital stock of Chips California shall be deemed for all purposes to evidence ownership of and to represent the shares of Chips Delaware into which the shares of Chips California represented by such certificates have been converted as herein provided. The registered owner on the books and records of Chips California or its transfer agents of any such outstanding stock certificate shall, until such certificate shall have been surrendered for transfer or conversion or otherwise accounted for to Chips Delaware or its transfer agents, have and be entitled to exercise any voting and other rights with respect to and to receive any dividend and other distributions upon the shares of Chips Delaware evidenced by such outstanding certificate as above provided.

1.4 Options. Upon the Effective Date, Chips Delaware will assume and continue the 1985 Stock Option Plan of Chips California and the outstanding and unexercised portions of all options to buy Common Stock of Chips California shall become options for the same number of shares of Common Stock of Chips Delaware with no other changes in the terms of conditions of such options, including exercise prices.

II. CHARTER DOCUMENTS, DIRECTORS AND OFFICERS

2.1 Chips Delaware Certificate of Incorporation and By-laws. The

Certificate of Incorporation of Chips Delaware, as in effect on the Effective Date, shall continue to be the Certificate of Incorporation of Chips Delaware until further amended in accordance with the provisions thereof and applicable law. The By-laws of Chips Delaware, as amended and in effect on the Effective Date, shall continue to be the By-laws of Chips Delaware without change or amendment until further amended in accordance with the provisions thereof and applicable law.

2.2 Chips Delaware Directors and Officers. The directors of Chips Delaware shall continue in office for their current terms and until their successors are elected and qualified, or until their death, resignation or removal. The officers of Chips Delaware shall remain officers of Chips Delaware on the Effective Date and shall serve at the pleasure of the Board of Directors.

III. CONDITIONS TO MERGER

3.1 Conditions. The consummation of the Merger and the other transactions contemplated by this Agreement is subject to approval by the shareholders of Chips California prior to the Effective Date.

IV. MISCELLANEOUS

4.1 Abandonment. At any time before the Effective Date, this Merger Agreement may be terminated and the Merger may be abandoned by the Board of Directors of Chips California, notwithstanding approval of this Merger Agreement by the shareholders of Chips California.

4.2 Amendment. At any time before the Effective Date, this Merger Agreement may be amended, modified or supplemented by the Board of Directors of the parties hereto, notwithstanding approval of this Merger Agreement by the shareholders of Chips California, provided, however, that no such amendment, modification or supplement not approved by the shareholders changes any of this Agreement's principal terms.

4.3 Counterparts. In order to facilitate the filing and recording of this Merger Agreement, the same may be executed in any number of counterparts, each of which shall be deemed to be an original.

IN WITNESS WHEREOF, this Merger Agreement, having first been duly approved by the Board of Directors of each of the parties hereto, is hereby executed on behalf of each of said corporations and attested by their respective officers thereunto duly authorized.

CHIPS AND TECHNOLOGIES, INC.

A California corporation

By: _____
Gordon Campbell, President

ATTEST:

_____
Gary P. Martin, Secretary

CHIPS AND TECHNOLOGIES, INC.
A Delaware Corporation

By: _____
Gordon Campbell, President

ATTEST:

_____
Gary P. Martin, Secretary

CERTIFICATE OF SECRETARY

OF

CHIPS AND TECHNOLOGIES, INC.

(A Delaware Corporation)

I, Gary Martin, the Secretary of Chips and Technologies, Inc., hereby certify that the Agreement and Plan of Merger to which this Certificate is attached, after having been first duly signed on behalf of the Corporation by the President and Secretary under the corporate seal of said Corporation, was duly approved and adopted by the sole stockholder of the Corporation by written consent dated September 11, 1986.

Witness my hand and seal of said Corporation this 11th day of September, 1986.

_____
Gary P. Martin, Secretary

CHIPS AND TECHNOLOGIES, INC.

CERTIFICATE
OF DESIGNATION, PREFERENCES AND RIGHTS
OF THE TERMS OF THE
SERIES A PREFERRED STOCK

Pursuant to Section 151 of the General Corporation Law of the State of Delaware

We, Gordon A. Campbell, President and Chief Executive Officer, and Nancy Dusseau, Secretary, of Chips and Technologies, Inc., organized and existing under the General Corporation Law of the State of Delaware, in accordance with the provisions of Section 103 thereof, DO HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors by the Certificate of Incorporation of the said Corporation, the said Board of Directors on July 10, 1992, adopted the following resolution creating a series of Preferred Stock designated as Series A Preferred Stock:

RESOLVED, that pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of its Certificate of Incorporation, a series of Preferred Stock of the Corporation be and it hereby is created, and that the designation and amount thereof and the powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series A Preferred Stock" (the "Series A Preferred Stock"), $0.01 par value per share, and the number of shares constituting such series shall be 510,780.

Section 2. Dividends and Distributions. No dividends or other distributions shall be made with respect to the Corporation's Common Stock, unless such dividend or distribution is also made in equal amounts based on the then effective Conversion Rate with respect to the Series A Preferred Stock.

Section 3. Voting Rights. The holders of shares of Series A Preferred

Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to the number of votes equal to the number of shares of Common Stock into which such share of Series A Preferred Stock could be converted at the record date for determination of stockholders entitled to vote on such matters, to vote on all matters submitted to a vote of the stockholders of the Corporation.

(B) Except as otherwise provided herein, in the Certificate of Incorporation or Bylaws, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) Except as set forth herein, in the Certificate of Incorporation and in the Bylaws, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 5. Liquidation, Dissolution or Winding Up.

(A) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of the Series A Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any assets or surplus funds of the Corporation to the holders of Common Stock, the amount for each share of Series A Preferred Stock then held by them equal to $4.64. If upon the occurrence of such event of liquidation, dissolution or winding up, the assets and property legally available to be distributed among the holders of Series A Preferred Stock shall be insufficient to permit the payment to such holders of the full preferential amount, then the entire assets and funds of the Corporation remaining legally available for distribution shall be distributed ratably among the holders of Series A Preferred Stock.

(B) For purposes of this Section 5, a merger or consolidation of the Corporation with or into any other corporation or corporations, or the merger of any other corporation or corporations into the Corporation, in which consolidation or merger the stockholders of the Corporation receive distributions in cash or securities of another corporation or corporations as a

result of such consolidation or merger, or a sale of all or substantially all of the assets of the Corporation, shall be treated as a liquidation, dissolution or winding up of the Corporation. The valuation of any securities or other property other than cash received by the Corporation in any transaction covered by this subparagraph (B) shall be computed at the fair value thereof at the time of receipt as determined in good faith by the Board of Directors.

(C) The holders of Series A Preferred Stock shall have no priority or preference with respect to distributions made by the Corporation in connection with the repurchase of shares of Common Stock issued to or held by employees, directors or consultants upon termination of their employment or services pursuant to agreements providing for the right of said repurchase between the Corporation and such persons.

Section 6. No Redemption. The shares of Series A Preferred Stock shall not be redeemable.

Section 7. Fractional Shares. The Series A Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights and have the benefit of all other rights of holders of Series A Preferred Stock. All payments made with respect to fractional shares hereunder shall be rounded to the nearest whole cent.

Section 8. Conversion. The holders of the Series A Preferred Stock shall have conversion rights (the "Conversion Rights") as follows:

(A) Each share of Preferred shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Corporation or any transfer agent for the Series A Preferred Stock, into Common Stock at the initial conversion rate of one fully paid and nonassessable share of Common Stock for each share of Series A Preferred Stock, subject, however, to the adjustments described below. (The number of shares of Common Stock into which each share of Series A Preferred Stock may be converted is hereinafter referred to as the "Conversion Rate.")

(B) At the time there are less than [a majority] shares of Series A Preferred Stock outstanding, each share of Series A Preferred Stock shall automatically be converted into shares of Common Stock at the then effective Conversion Rate.

(C) No fractional shares of Common Stock shall be issued upon conversion of Preferred. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the ratio of (i) $4.64, and (ii) the then effective Conversion Rate for such Series A Preferred Stock. Before any holder of Series A Preferred Stock shall be entitled to convert the same into full shares of Common

Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for the Series A Preferred Stock, and shall give written notice to the Corporation at such office that he elects to convert the same; provided, however, that in the event of an automatic conversion pursuant to subparagraph (B) the outstanding shares of Series A Preferred Stock, shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the Corporation or its transfer agent; provided further, however, that the Corporation shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such automatic conversion unless either the certificates evidencing such shares of Series A Preferred Stock are delivered to the Corporation or its transfer agent as provided above, or the holder notifies the Corporation or its transfer agent that such certificates have been lost, stolen or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with such certificates.

(D) The Corporation shall, as soon as practicable after such delivery, or after such agreement and indemnification, issue and deliver at such office to such holder of Series A Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which he shall be entitled as aforesaid and a check payable to the holder in the amount of any cash amounts payable as the result of a conversion into fractional shares of Common Stock. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series A Preferred Stock to be converted, or in the case of automatic conversion on the date specified in paragraph (B) above, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

(E) The Corporation shall pay any and all issue and other taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of shares of Series A Preferred Stock pursuant hereto; provided, however, that the Corporation shall not be obligated to pay any transfer taxes resulting from any transfer requested by any holder in connection with any such conversion.

(F) The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series A Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series A Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be

sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to the Corporation's Certificate of Incorporation.

Section 9. Adjustments to Conversion Rate.

(A) In the event the Corporation at any time or from time to time effects a subdivision or combination of its outstanding Common Stock into a greater or lesser number of shares without a proportionate and corresponding subdivision or combination of the outstanding Series A Preferred Stock, then and in each such event the Conversion Rate shall be increased or decreased proportionately.

(B) In the event the Corporation at any time or from time to time shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock or other securities or rights (hereinafter referred to as "Common Stock Equivalents") convertible into or entitling the holder thereof to receive additional shares of Common Stock without payment of any consideration by such holder for such Common Stock Equivalents or the additional shares of Common Stock then and in each such event the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for a subsequent adjustment of such number) of Common Stock issuable in payment of such dividend or distribution or upon conversion or exercise of such Common Stock Equivalents shall be deemed to be issued and outstanding as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date. In each such event the Conversion Rate shall be increased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Rate by a fraction,

(i) the numerator of which shall be the total number of shares of Common Stock issued and outstanding or deemed to be issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution or upon conversion or exercise of such Common Stock Equivalents; and

(ii) the denominator of which shall be the total number of shares of Common Stock issued and outstanding or deemed to be issued and outstanding immediately prior to the time of such issuance or the close of business on such record date; provided, however, (A) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Rate shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Rate shall be adjusted pursuant to this subparagraph

(B) as of the time of actual payment of such dividends or distribution; (B) if such Common Equivalents provide, with the passage of time or otherwise for any decrease in the number of shares of Common Stock issuable upon conversion or exercise thereof, the Conversion Rate shall, upon any such decrease becoming effective, be recomputed to reflect such decrease insofar as it affects the rights of conversion or exercise of the Common Stock Equivalents then outstanding; and (C) upon the expiration of any rights or conversion or exercise under any unexercised Common Stock Equivalents, the Conversion Rate computed upon the original issue thereof shall, upon such expiration, be recomputed as if the only additional shares of Common Stock issued were the shares of such stock, if any, actually issued upon the conversion or exercise of such Common Stock Equivalents.

(C) The Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation but will at all times in good faith assist in the carrying out of all the provisions of this Section 9 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Preferred against impairment.

(D) Upon the occurrence of each adjustment or readjustment of the Conversion Rate for any series pursuant to this Section 9, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of shares of Series A Preferred

Stock a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of Series A Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Rate at the time in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of the Series A Preferred Stock.

(E) In the event that the Corporation shall propose at any time:

(i) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus;

(ii) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights;

(iii) to effect any reclassification or recapitalization of its

Common Stock outstanding involving a change in the Common Stock; or

(iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all its property or business, or to liquidate, dissolve or wind up;

then, in connection with each such event, the Corporation shall send to the holders of the Series A Preferred Stock at least ten (10) days prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of Common Stock shall be entitled thereto) or for determining rights to vote in respect of the matters referred to in (i) and (ii) above; and in the case of the matters referred to in (iii) and (iv) above, at least ten (10) days prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event). Each such notice shall be given by first class mail, postage prepaid, addressed to the holders of Series A Preferred Stock at the address for each such holder as shown on the books of the Corporation.

Section 10. Amendment. The Certificate of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least a majority of the outstanding shares of Series A Preferred Stock voting together as a single class.

IN WITNESS WHEREOF, we have executed and subscribed this Certificate and od affirm the foregoing as true under the penalties of perjury this day of May, 1993.

_____

Gordon A. Campbell,
President and Chief Executive Officer

Attest:

_____

Nancy Dusseau, Secretary

AMENDED AND RESTATED
CHIPS AND TECHNOLOGIES, INC.

1985 STOCK OPTION PLAN

1. Purpose. The Chips and Technologies, Inc., 1985 Stock Option Plan was adopted on January 11, 1985 (the "Prior Plan"). On January 8, 1987, the Prior Plan was amended and restated as set forth herein (the "Plan"). The Plan is established to create additional incentive for key employees, directors, and consultants of Chips and Technologies, Inc. and any present or future parent and/or subsidiary corporations of such corporation (collectively referred to as the "Company") to promote the financial success and progress of the Company. For purposes of the Plan, a parent corporation and a subsidiary corporation shall be as defined in sections 425(e) and 425(f) of the Internal Revenue Code of 1986, as amended (referred to herein as the "Code" or the "1986 Code"). The Internal Revenue Code of 1954 as amended prior to the Tax Reform Act of 1986, shall be referred to herein as the "1954 Code."

2. Administration. The Plan shall be administered by the Board of Directors (the "Board") and/or by a duly appointed committee of the Board having such powers as shall be specified by the Board. Any subsequent references to the Board shall also mean the committee if it has been appointed. All questions of interpretation of the Plan or of any options granted under the Plan (an "Option") shall be determined by the Board, and such determinations shall be final and binding upon all persons having an interest in the Plan and/or any Option. Options may be either incentive stock options as defined in section 422A of the Code (including any future amendments or replacements of such section) ("Incentive Stock Options") or nonqualified stock options.

3. Eligibility.

(a) Eligible Persons. The Options may be granted only to employees (including officers), directors and consultants of the Company; provided, however, that a director of the Company shall not be eligible to receive an Option unless the Board has appointed a committee to administer the Plan and the director is not a member of such committee. The Board shall, in the Board's sole discretion, determine which persons shall be granted Options (an "Optionee"). A director or consultant of the Company shall be eligible to be granted only a nonqualified stock option unless the director or consultant is also an employee of the Company. An Optionee may, if otherwise eligible, be granted additional Options.

(b) Fair Market Value Limitation. The aggregate fair market value of the stock for which an Optionee may be granted Incentive Stock Options in any calendar year under all stock option plans of the Company, including the Plan, shall, (i) for Options granted before January 1, 1987, comply with the limitations set forth in section 422A(b)(8) of the 1954 Code (i.e., shall not

exceed One Hundred Thousand Dollars ($100,000) plus any unused limit carryover to such year determined in accordance with section 422A(c)(4) of the 1954 Code) and (ii) for Options granted after December 31, 1986, comply with the limitations set forth in section 422A(b)(7) of the 1986 Code (i.e., shall not become exercisable for the first time during any calendar year at a rate in excess of One Hundred Thousand Dollars ($100,000)). Such limitations as applied to an Incentive Stock Option shall be referred to as the "fair market value limitation." In the event of an amendment to section 422A of the Code, this paragraph 3(b) shall be automatically amended to make this provision no more restrictive to the Optionee than necessary to ensure qualification of the Incentive Stock Option as meeting the requirements of section 422A of the Code. In the event an Optionee receives an Option intended to be an Incentive Stock Option which is subsequently determined to have exceeded the fair market value limitation, the Option shall be amended, if necessary in accordance with applicable Treasury Regulations and rulings to preserve, as the first priority to the maximum possible extent, the status of the Option as an Incentive Stock Option and to preserve as a second priority, to the maximum possible extent, the total number of shares of Stock subject to the Option.

4. Shares Subject to Option. The maximum number of shares which may be issued under the Plan shall be 17,200,000 shares of the Company's authorized but unissued common stock, subject to adjustment as provided in Paragraph 7 below. In the event that any outstanding Option for any reason expires or is terminated and/or shares subject to repurchase are repurchased by the Company, the shares of common stock allocable to the unexercised portion of such Option, or so repurchased, may again be subjected to an Option.

5. Time for Granting Options. All Options shall be granted, if at all, within ten (10) years from January 11, 1985.

6. Terms, Conditions and Form of Options. Subject to the provisions of the Plan, the Board shall determine for each Option (which need not be identical) the number of shares for which the Option shall be granted, the option price of the Option, the exercisability of the Option, whether the Option is a nonqualified stock option or an Incentive Stock Option, and all other terms and conditions of the Option not inconsistent with this Paragraph 6. Options granted pursuant to the Plan shall be evidenced by written agreements specifying the number of shares covered thereby, in such form as the Board shall from time to time establish, and shall comply with and be subject to the following terms and conditions:

(a) Option Price. The option price shall be determined as follows:

(1) for Incentive Stock Options, the option price shall be not less than the fair market value, as determined by the Board, of the shares of common stock of the Company on the date of the granting of the Option;

(2) for an Optionee who at the time the Option is granted owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company within the meaning of section 422A(b)(6)

of the Code and/or ten percent (10%) of the total combined value of all classes of stock of the Company within the meaning of section 422A(b)(6) of the Code (a "Ten Percent Owner Optionee"), the option price for

any Option granted to such Ten Percent Owner Optionee shall not be less than one hundred ten percent (110%) of the fair market value of the shares on the date the Option is granted; and

(3) the option price for nonqualified stock options shall be determined by the Board on the date the option is granted (i) for persons who are subject to Section 16 of the Securities Exchange Act of 1934, as amended, shall not be less than the fair market value, as determined by the Board, of the shares of common stock of the Company on the date of the granting of the Option and (ii) for persons who are not subject to Section 16 of the Securities Exchange Act of 1934, as amended, and may be less than the fair market value of the common stock of the Company on the date of the granting of the Option, but in no event shall the option price be less than the par value of the shares.

(b) Exercise Period of Options. The Board shall have the power to set the time or times within which each Option shall be exercisable or the event or events upon the occurrence of which all or a portion of each Option shall be exercisable and the term of each Option; provided, however, that (i) no Option intended to be an Incentive Stock Option shall be exercisable after the expiration of ten (10) years after the date such Option is granted; (ii) no Option intended to be a nonqualified stock option shall be exercisable after the expiration of ten (10) years and one (1) month after the date such Option is granted, and (iii) no Option granted to a Ten Percent Owner Optionee shall be exercisable after the expiration of five (5) years from the date such Option is granted.

(c) Payment of Option Price. Payment of the option price for the number of shares being purchased pursuant to any Option shall be made (1) in cash or cash equivalent, (2) by tender to the Company of shares of the Company's common stock which (i) either have been owned by the Optionee for more than six (6) months or were not acquired, directly or indirectly, from the Company, and (ii) have a fair market value, as determined by the Board, not less than the option price, or (3) if specifically permitted by the Board and set forth in the Optionee's Option, by the Optionee's promissory note if the Optionee is an employee and/or director of the Company at the time the Option is granted. The Board may at any time or from time to time, by adoption of or by amendment to the standard form of Incentive Stock Option Agreement set forth in Paragraph 6(f) below, or by other means, grant options which do not permit all of the foregoing forms of consideration to be used in payment of the option price and/or which otherwise restrict one (1) or more forms of consideration. Notwithstanding the foregoing, an Option may not be exercised by the tender of the Company's common stock to the extent such tender of stock would constitute a violation of the provisions of Section 160 of the Delaware General Corporation Law, or the corresponding provisions of other applicable law. In the event the Board permits the exercise of an Option in whole or in part by means of the

Optionee's promissory note, the Board shall determine the provisions of such note; provided, however, that such note shall not represent more than the lesser of (1) one hundred percent (100%) of the option price or (2) the maximum amount permitted under the Delaware General Corporation Law or other applicable law, the principal shall be due and payable not more than five (5) years after the Option is granted, and interest shall be payable at least annually and be at least equal to the minimum interest rate to avoid imputed interest pursuant to all applicable sections of the Code. The Board shall have the authority from

time to time to permit the Optionee to secure any promissory note used to exercise an Option with collateral other than the Company's common stock.

(d) Sequential Exercise Limitation. An Incentive Stock Option granted before January 1, 1987, shall not be exercisable if there is outstanding, within the meaning of section 422A of the 1954 Code, any other Incentive Stock Option (as defined in the 1954 Code) which was granted to the Optionee by the Company prior to the grant of the Option. The foregoing restriction on exercise shall not apply to any option granted after December 31, 1986. In the event of an amendment to section 422A of the Code, this Paragraph 6(d) shall be automatically amended to make this provision no more restrictive to the Optionee than necessary if there is outstanding, within the meaning of section 422A of the 1954 Code, any other Incentive Stock Option (as defined in the 1954 Code) which was granted to the Optionee by the Company prior to the grant of the Option. The foregoing restriction on exercise shall not apply to any option granted after December 31, 1986. In the event of an amendment to section 422A of the Code, this Paragraph 6(d) shall be automatically amended to make this provision no more restrictive to the Optionee than necessary ions. Unless otherwise provided for by the Board at the time an Option is granted, an Option designated by the Board as an Incentive Stock Option shall comply with and be subject to the terms and conditions set forth in the form of Incentive Stock Option Agreement attached hereto as Exhibit A and incorporated herein by reference.

(ii) Authority to Vary Terms. The Board shall have the authority from time to time to vary the terms of the option agreement set forth as Exhibit A either in connection with the grant 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 such option agreement or agreements shall be in accordance with the terms of the Plan. Such authority shall include, but not by way of limitation, the authority (A) to grant Options which are not immediately exercisable, and (B) for Options which are intended to be nonqualified stock options, to eliminate those provisions set forth in Exhibit A required to satisfy the provisions of section 422A of the Code.

7. Effect of Change in Stock Subject to Plan. Appropriate adjustments shall be made in the number and class of shares of stock subject to this Plan and to any outstanding Options and in the exercise price of any outstanding Options in the event of a stock dividend, stock split, reverse stock split, combination, reclassification or like change in the capital structure of the Company.

8. Provision of Information. Each Optionee shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common shareholders.

9. Assignment of Repurchase Option. In the event that the Company is unable, pursuant to Section 160 of the Delaware General Corporation Law, or the corresponding provisions of other applicable law, to exercise its Unvested Share Repurchase Option (as defined in the Incentive Stock Option Agreement) to repurchase any unvested shares purchased pursuant to an Option and if the fair market value of the stock to be repurchased is greater than the repurchase price, the Board may assign such Unvested Share Repurchase Option to one or more persons as it may select, provided that the Company shall receive aggregate cash consideration for such assignment equal to or greater than the fair market value of the stock which may be repurchased under such Unvested Share Repurchase Option (as determined by the Board) minus the repurchase price of such stock. The requirements of this Paragraph 9 regarding the minimum consideration to be received by the Company shall not inure to the benefit of the Optionee whose shares are being repurchased so that failure by the Company to comply with the provisions of this Paragraph 9 shall not be available to such Optionee as a defense or otherwise to prevent the repurchase of the Optionee's unvested stock by an assignee of the Unvested Share Repurchase Option.

10. Transfer of Control. A "Transfer of Control" shall be deemed to have occurred in the event any of the following occurs with respect to the Control Company. For purposes of applying this Paragraph 10, the "Control Company" shall mean the corporation whose stock is subject to the Option.

(a) the direct or indirect sale or exchange by the shareholders of the Control Company of all or substantially all of the stock of the Control Company where the shareholders of the Control Company before such sale or exchange do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Control Company;

(b) a merger in which the shareholders of the Control Company before such merger do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Control Company; or

(c) the sale, exchange, or transfer of all or substantially all of the Control Company's assets (other than a sale, exchange, or transfer to one or more corporations where the shareholders of the Control Company before such sale, exchange or transfer retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the corporation(s) to which the assets were transferred). In the event of a Transfer of Control, the Board, in its sole discretion, shall either (i) provide that any unexercisable portion of the Option shall be immediately exercisable as of a date prior to the Transfer of Control, as the Board so determines, or (ii) arrange with the

surviving, continuing, successor, or purchasing corporation, as the case may be, that such corporation either assume the Company's rights and obligations under outstanding Stock Option Agreements or substitute an option for such corporation's stock for such outstanding Options. Any Options which are neither exercised as of the date of the Transfer of Control nor assumed by the surviving, continuing, successor, or purchasing corporation, as the case may be, shall terminate effective as of the date of the Transfer of Control.

11. Termination or Amendment of Plan. The Board may terminate or amend the Plan at any time; provided, however, that without the approval of the Company's shareholders, there shall be (i) no increase in the total number of shares covered by the Plan (except by operation of the provisions of Paragraph 7 above), and (ii) no change in the class of persons eligible to receive Options. In any event, no amendment may adversely affect any then outstanding Option or any unexercised portion thereof, without the consent of the Optionee, unless such amendment is required to enable the Option to qualify as an incentive stock option (as defined in the Code).

12. Continuation of Prior Plan as to Outstanding Options. Notwithstanding any other provision of the Plan to the contrary, the terms of the Prior Plan shall remain in effect and apply to Options granted pursuant to the Prior Plan.

STOCK OPTION AGREEMENT

BETWEEN

CHIPS AND TECHNOLOGIES, INC.

AND

[[firstname lastname]]

GRANT NUMBER [[grantnumber]]

You have been granted an option under the Amended and Restated Chips and Technologies, Inc. 1985 Stock Option Plan (the "Plan"). This Agreement describes the terms and conditions of your option (the "Agreement").

NUMBER OF SHARES	Your option is for shares shares of the common stock of Chips and Technologies, Inc., a Delaware corporation ("Chips").
OPTION PRICE	You may purchase your option shares for optionprice per share, which was the closing price of the common stock of Chips on [[grantdate]].

TYPE OF OPTION	This option is intended to be a nonqualified stock option and will not be treated as an incentive stock option as provided in section 422 of the Internal Revenue Code of 1986, as amended (the "Code").
GRANT DATE	The "Grant Date" of your option is grantdate. This is the date the Board of Directors of Chips approved your option grant.
INITIAL VESTING DATE	The "Initial Vesting Date" of your option is [[period1vestdate]]. This is the date your option begins to vest.
EXERCISABILITY	You may exercise your option immediately in its entirety after the Grant Date. However, if you buy unvested option shares, they may not be sold or otherwise transferred until they become vested (see Right of Repurchase below).
TERM	Your option will expire on [[period1expiredate]], unless your employment with Chips (or a parent corporation or subsidiary corporation of Chips as defined in section 424 of the Code) is terminated as explained below, or unless Chips is involved in a "transfer of control" transaction as explained below.
VESTING OF OPTIONS	On the Initial Vesting Date, period1sharesvesting shares of the option will be vested. Thereafter, 1/48th of the option shares will vest for eachfull month of your continuous employment with Chips from the Initial Vesting Date. Your option stops vesting when your employment with Chips (or a parent corporation or subsidiary corporation of Chips) terminates. Vesting during an approved leave of absence is governed by the applicable Leave of Absence Policy in effect at the time you go on leave.
RIGHT OF REPURCHASE	You can buy shares that have

not yet vested. The number of shares you buy over and above your vested shares are "unvested shares." They may not be sold or otherwise be transferred until they become vested.

If your employment with Chips (or a parent corporation or subsidiary corporation of Chips) terminates for any reason, with or without cause while you are holding unvested shares, or if you or your legal representative attempts to sell, exchange, transfer, pledge, or otherwise dispose of any unvested shares (other than pursuant to an ownership change), Chips may buy those unvested shares back from you at the option price you originally paid. If Chips wishes to exercise its right to repurchase the unvested shares, it must give you notice within 60 days after (i) the termination of your employment or exercise of the option, if later, or (ii) Chips has received notice of the attempted disposition. Chips must exercise its right to repurchase the unvested shares, if at all, for all of the unvested shares, except as Chips and you otherwise agree. However, Chips will allow you to transfer your unvested shares to your ancestors, descendents, spouse or to a trustee for their benefit, provided, that the transferee agrees in writing to take the shares subject to Chips' right of repurchase. In the event Chips is unable to exercise the right of repurchase under the provisions of Section 160 of the Delaware General Corporation Law, or the corresponding provisions of other applicable law, Chips has the right to assign the right of repurchase to one or more persons as may be selected by Chips' Board of Directors.

To ensure that the unvested shares will be available for repurchase, you are required to deposit the certificate for the shares with an escrow agent designated by Chips under the terms and conditions of an escrow agreement approved by Chips.

If Chips exercises its right to repurchase

your unvested shares, payment by Chips to the escrow agent on behalf of you or your legal representative will be make in cash within 60 days after the date of the mailing of the written notice. For purposes of this payment, cancellation of any outstanding promissory note that you have previously delivered to Chips will be treated as payment in cash to the extent of the unpaid principle and any accrued interest canceled. Within 30 days after payment by Chips, the escrow agent will give the shares which Chips has purchase to Chips and give the payment received from Chips to you.

The certificates for unvested shares have stamped on them a special legend referring to Chips' right of repurchase. As you vesting percentage increases, you may request, at reasonable intervals, the Chips exchange those legended shares which have vested for shares that are freely transferable.

TRANSFER OF CONTROL

The following events constitute an "ownership change" of Chips: (1) the direct or indirect sale or exchange by Chips' stockholders of all or substantially all of Chips' stock; (2) a merger in which Chips is a party; or (3) the sale, exchange, or transfer of all or substantially all of Chips' assets (other than a sale, exchange, or transfer to one or more corporations where Chips' stockholders before such sale, exchange, or transfer retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the corporation(s) to which the assets were transferred).

A "transfer of control" of Chips means an ownership change in which Chips' stockholders before such ownership change do not retain, directly or indirectly, at least a majority of the beneficial interest in Chips' voting stock.

In the event of a transfer of control, Chips' Board of Directors, in its sole discretion, will either (i) provide that all shares acquired on exercises of your option become

vested shares effective upon the transfer of control, or (ii) arrange with the surviving, continuing, successor, or purchasing corporation, as the case may be, that such corporation assume Chips' rights and obligations under this Agreement. Your option will terminate effective as of the date of the transfer of control to the extent that your option is neither exercised as of the date of the transfer of control nor assumed by the surviving, continuing, successor, or purchasing corporation, as the case may be.

REGULAR TERMINATION

If your employment with Chips (or a parent corporation or subsidiary corporation of Chips) terminates for any reason with or without cause, your option, to the extent unexercised, will expire on the date of termination.

RESTRICTIONS ON RESALE: GENERAL

You may not sell shares (that you acquire by exercising your option) at any time you are in possession of material inside information. In addition, sales of shares that you acquire by exercising your option will be governed by Chips' employee trading policy, as in effect at the time of the proposed sale.

RESTRICTIONS ON RESALE:

OFFICERS If you are an officer of Chips, shares that you acquire by exercising your option may only be sold during the officer's trading window. This window commences on the third day following the release of quarterly financial results and ends ten business days thereafter, unless extended by Chips' President or Chief Financial Officer.

NOTICE OF EXERCISE

When you wish to exercise your option, you must send an executed Notice of Exercise to:

Chips and Technologies, Inc.
3050 Zanker Road
San Jose, CA 95134
Attn: Financial Services 1-7

Your notice must specify how many whole shares you wish to purchase, and must contain such representation and agreements as to your investment intent with respect to the shares as may be required by Chips. Your notice must be delivered in person or by certified mail to Chips' Stock Administrator prior to the expiration date of the term of the Option, accompanied by an executed copy of the then current form of escrow instructions, if you are exercising your option for unvested shares, and full payment of the option price for the number of shares being purchased. The notice of Exercise is effective when it is received by Chips. Chips will not be required to issue fractional shares upon the exercise of your option.

FORM OF PAYMENT

When you submit your Notice of Exercise, you must include payment of the option price for the number of shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms:

- Your personal check, a cashier's check or a money order.

- Irrevocable directions to a securities broker approved by Chips to sell your option shares and to deliver all or a portion of the sale proceeds to Chips in payment of the option price. (The balance of the sales proceeds, if any, will be delivered to you.) The directions must be given by signing a form provided by Chips.

WITHHOLDING TAXES

In order to exercise your option, you must make arrangements to pay any federal and state withholding taxes that may be due as a a result of the option exercise. In the future, at any time requested by Chips, you must make arrangements to pay any federal or state withholding taxes that may be due as a result of any transfer of any shares acquired on exercise of your option, the operation of any federal or state law providing for the imputation of interest, or the lapse of any restriction with respect to any shares

acquired on exercise of your option.

CERTIFICATE REGISTRATION

The certificate or certificates issued upon the exercise of your option will be registered in your name.

RESTRICTION ON GRANT OF OPTION AND ISSUANCE OF SHARES

The grant of your option and the issuance of shares upon the exercise of the option is subject to compliance with all applicable requirements of federal or state law with respect to such securities. Your option may not be exercised if the issuance of shares upon such exercise would constitute a violation of any applicable federal or state securities law or other law or regulations. As a condition to the exercise of your option, Chips may require you to make any representation or warranty to Chips as may be necessary or appropriate to evidence compliance with any applicable law or regulation. Chips may place legends on the certificates for your option shares referring to any applicable federal or state securities law restrictions.

TRANSFER OF OPTION

Prior to your death, only you may exercise your option, and you can not transfer or assign your option. However, you may dispose of your option in your will.

Regardless of any marital property settlement agreement, Chips is not obligated to honor a Notice of Exercise from your former spouse, nor is Chips obligated to recognize your former spouse's interest in your option in any other way.

STOCK DIVIDENDS

If, from time to time, there is any stock dividend, stock split, or other change in the character or amount of any of Chips' outstanding stock, then in such event any and all new substituted or additional securities to which you are entitled by reason of your ownership of the shares acquired upon

	exercise of your option will be immediately subject to Chips' right of repurchase with the same force and effect a the shares subject to the right of repurchase immediately before such event. (See Right of Repurchase above).
EMPLOYEE RIGHTS	Your option or this Agreement do not give you the right to be retained as an employee by Chips (or a parent corporation or subsidiary corporation of Chips). Chips reserves the right to terminate your employment at any time, with or without cause.
STOCKHOLDER RIGHTS	You, or your estate or heirs, have no rights as a stockholder of Chips until a certificate for your option shares has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs prior to the date your stock certificate is issued, except in the event of a change in the stock subject to the Plan as described in the Plan.
APPLICABLE LAW	This Agreement will be interpreted and enforced under the laws of the State of California.
OTHER AGREEMENTS	The text of the Plan is incorporated in this Agreement by reference. This Agreement and the Plan constitute the entire understanding between you and Chips regarding your option. Any prior agreements, understandings, commitments, or negotiations concerning your option are superseded.
AMENDMENT	Chips may at any time amend or terminate the Plan and/or your option. However, no amendment or termination may adversely affect your option without your consent.
TIME OF EXPIRATION	Whenever there is a reference in this Agreement to a date when your option expires, the option will expire on that date at 5:00 p.m. local time in San Jose, California.

By signing this Agreement, you agree to all of the terms and conditions described above and in the Plan, including Chips' right to repurchase unvested shares.

CHIPS AND TECHNOLOGIES, INC.

BY:_____

JAMES STAFFORD, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

OPTIONEE
BY:_____

RESTATED SECURED PROMISSORY NOTE

$1,615,000.00 Sunnyvale, California
March 31, 1994

FOR VALUE RECEIVED, each of the undersigned (collectively, the "Obligors") promises to pay to Chips and Technologies, Inc., a Delaware corporation ("Chips"), or order, at such place or places as Chips may from time to time designate in writing, the principal sum of $1,615,000.00. Interest shall accrue from September 24, 1993 on the unpaid principal sum at the rate of ten percent (10%) per annum, compounded monthly, but in no event shall the interest rate be greater than the maximum amount which may be charged under applicable law.

The Obligors shall make payments in four equal installments of $457,314.51 on each of March 31, 1994, September 30, 1994, March 31, 1995 and September 30, 1995. All payments shall be applied first to accrued interest and then to principal. All unpaid principal and interest remaining outstanding shall be due and payable in full on September 30, 1995. At any time from the date hereof, any Obligor may prepay all or any portion of the principal of this note without penalty. This note shall be prepaid to the extent set forth in Section 2 of the Security Agreement (as defined below). Any prepayment shall be applied first to accrued and unpaid interest and then to the principal portion of each installment in inverse order of maturity.

If the principal and interest are not paid in full when they become due, the Obligors agree to pay Chips, in addition to such amounts owed pursuant to this note, all costs and expenses of collection, including a reasonable sum for attorneys' fees as fixed by a court of competent jurisdiction.

The Obligors' obligations under this note are secured by a Loan and Security Agreement of even date herewith between the Obligors and Chips (the "Security Agreement"). Each Obligor is jointly and severally liable hereunder. The obligations of the Obligors under this Note are guaranteed pursuant to a Secured Continuing Guarantee of even date herewith between Chips and Techfarm, Inc.

This note shall be governed by and construed in accordance with the laws of the State of California. Acceptance of partial or delinquent payment from any Obligor or the failure of the holder of this note to exercise any right hereunder shall not constitute a waiver of any obligation of any Obligor or any right of the holder of this note under this note, and shall not affect in any way the right to require full performance at any time thereafter. Presentment, protest, notice of protest and notice of dishonor are hereby waived by each Obligor.

CHIPS & TECHNOLOGIES JV

CYPRUS LTD.

By: /s/

Title: /s/

SUMMIT SYSTEMS JV

By: /s/

Title: /s/

SECURED CONTINUING GUARANTEE

This Secured Continuing Guarantee (the "Guarantee") is made this 31st day of March, 1994 by and between Techfarm, Inc., a California corporation (the "Guarantor") having its principal place of business located at 404 Tasman Drive, Sunnyvale, CA 94089 and Chips and Technologies, Inc., a Delaware corporation (the "Lender"), having its principal offices located at 2950 Zanker Road, San Jose, CA 95134.

R E C I T A L S

A. The Lender has loaned to Chips & Technologies JV Cyprus Ltd. and to Summit Systems JV (collectively, the "Debtors") the principal amount of $1,615,000.00 (the "Loan") pursuant to a Restated Note dated as of March 31, 1994 (the "Note") and a Restated Loan and Security Agreement of the same date (the "Security Agreement").

B. The Lender is willing to extend credit to Debtors only if it receives satisfactory assurances for the full and prompt performance and payment by Debtors of all of their obligations to the Lender.

C. Guarantor agrees that the provision of credit to Debtors will benefit Guarantor. At the request of Debtors, and in order to induce the Lender to extend credit to Debtors, Guarantor is willing to guarantee to the Lender full and prompt performance and payment by Debtors of all of their obligations to the Lender.

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree as follows:

1. Continuing Guarantee.

1.1 Guarantee. The Guarantor hereby unconditionally, absolutely and irrevocably guarantees to the Lender the full and indefeasible payment and performance by each of the Debtors of each of their respective obligations to the Lender, now existing or hereafter arising, including, without limitation, the payment in full when due (whether at stated maturity, by acceleration, or otherwise) of the principal of and interest on the Loan and all other amounts, liabilities and indebtedness (whether for principal, interest, reimbursement, fees, charges, indemnification, or otherwise) now or in the future owed to the Lender by either Debtor under the Note, the Security Agreement, and any renewals, extensions, amendments, or modifications thereof, in each case strictly in accordance with the terms thereof (all of the foregoing, and all other obligations and covenants to be performed by the Guarantor under this Agreement, are collectively referred to herein as the "Obligations").

1.2 Duration. Guarantor may revoke this Guarantee on written notice to the Lender at any time after the full and indefeasible payment and performance by each of the Debtors of each of their respective Obligations to the Lender under the Note and the Security Agreement (such obligations, the "Note Obligations"), but such revocation will not apply to any Obligations first incurred prior to the effective date of such notice including, without limitation, the Note Obligations, even if such Obligations are subsequently modified or extended. Guarantor acknowledges that fluctuations in the amount of Obligations are expected to occur, but that this Guarantee will not be terminated prior to its expiration or written revocation.

1.3 Unconditional Nature. Guarantor hereby agrees this Guarantee is unconditional and irrevocable and is effective immediately and will continue to be in full force and effect regardless of whether Guarantor would have had any defense as against the Lender under the law of suretyship or otherwise. Guarantor is bound to the full and prompt performance and payment of all Obligations as if such Obligations were directly owed to the Lender by Guarantor. Guarantor shall remain liable under this Guarantee until the Obligations incurred prior to the expiration or revocation of this Guarantee have been discharged in full.

1.4 Waiver. Guarantor waives, with full understanding of the significance of such waivers, and with the agreement that such waivers are reasonable and not contrary to public policy:

(a) any requirement that the Lender give the Guarantor any form of notice or demand to which Guarantor might otherwise be entitled in law or equity, including notice of the amount of the Obligations outstanding from time to time, notice of Debtors' financial condition, or notice of default;

(b) any and all defenses available to Guarantor under the

statute of limitations, law of suretyship or otherwise including, without limitation, any defense arising out of the absence or loss of any remedy of Guarantor against Debtors, or any other defense or claim relating to the exoneration or discharge of Debtors or any guarantors or sureties; any defense arising out of the modification or extension of any Obligations, whether before or after this Guarantee is revoked or expires, and any rights or defenses arising under Sections 726, 580b and 580d of the California Code of Civil Procedure, or any similar laws in other jurisdictions; and

(c) any rights, by statute or otherwise, which require the Lender to institute suit against Debtors or otherwise to exhaust the Lender's rights and remedies against Debtors or any security securing any Obligation or pursue any other remedy or enforce any other right before proceeding against Guarantor under this Guarantee.

1.5 Consents. Without limiting the generality of the waivers set forth in Section 1.4, the Guarantor hereby expressly agrees that any or all of the following actions may be taken without notice to the Guarantor and without affecting the liability of the Guarantor under this Guarantee:

(a) the terms of the Note or the Security Agreement may be amended as provided for therein for the purpose of adding any provisions thereto or changing in any manner the rights or obligations of the Debtors or the Lender thereunder;

(b) the time for the performance of or compliance with any term of the Note or the Security Agreement by the Debtors (or either of them) may be accelerated or extended or such performance or compliance may be waived by the Lender;

(c) any collateral security, including, without limitation, the Collateral (as defined in the Security Agreement), for all or any part of the Obligations may be exchanged, surrendered or otherwise dealt with, and the Lender's interest therein may be released and may or may not be perfected, all as the Lender in its sole discretion may determine;

(d) the Lender may discharge or release, in whole or in part, the Debtors (or either of them), or any other entity liable for the payment and performance of all or any part of the Obligations;

(e) in addition to the Collateral, the Lender may take and hold other security (legal or equitable) of any kind, at any time, as collateral for the Obligations, and may, from time to time, in whole or in part, exchange, sell, surrender, release, subordinate, modify, waive or extend such security and

may apply such security and direct the order or manner of sale thereof; and

(f) the Lender may exercise, or waive or otherwise refrain from exercising, any right, remedy, power or privilege (including the right to accelerate the maturity of the Loan or any other Obligation) granted to the Lender hereby, by the Note, by the Security Agreement, by any other applicable security document or agreement, or by any applicable law, even if the exercise or waiver of such right, remedy, power or privilege affects or eliminates any right of the Guarantor against the Debtors (or either of them).

1.6 Form and Amount of Obligations. Guarantor hereby consents and agrees to the extension of credit to Debtors by the Lender, in the Lender's sole discretion, and agrees to be bound by and to comply with all promises, covenants and agreements of Debtors to the Lender. Guarantor understands and agrees that the amount, manner, duration or any other term of the Obligations may be changed, increased, extended, settled, waived or released without notice to or the consent of the Guarantor. Guarantor agrees that any statement of account that would bind Debtors will bind Guarantor.

1.7 No Diminishment. The Lender shall have the sole right to choose its remedies in enforcing the Obligations, including the taking or releasing of any security, and to determine how and when to apply any payments and credits to the Obligations. No such election by the Lender shall constitute a waiver of the Lender's right to proceed in any other form of action or proceeding or against any other parties unless the Lender has expressly waived such right in writing.

1.8 Subordination. All indebtedness of Debtors now or hereafter held by Guarantor is hereby subordinated to the indebtedness of Debtors to the Lender.

1.9 Subrogation.

(a) Notwithstanding any other provision of this Guarantee to the contrary, the Guarantor hereby unconditionally and irrevocably waives and relinquishes any and all claims and other rights which the Guarantor may now have or hereafter acquire against the Debtors (or either of them) or any other guarantor that arise from the existence or performance of the Obligations under this Guarantee or any other document, including without limitation, the Note or the Security Agreement (all such claims and rights are referred to as "Conditional Rights"), including, without limitation, any right of subrogation, reimbursement, exoneration, contribution, or indemnification, any right to participate in any claim or remedy of the Lender against the Debtors (or either of them) or any Collateral which the Lender now has or hereafter acquires, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, by any payment made hereunder or otherwise, including,

without limitation, the right to take or receive from the Debtors (or either of them), directly or indirectly, in cash or other property or by setoff or in any

other manner, payment or security on account of such claim or other rights. The Guarantor hereby agrees that the Guarantor will not exercise any Conditional Rights which it may acquire under this Guarantee or any other document or by any payment made hereunder or otherwise, including, without limitation, the right to take or receive from any other guarantor, directly or indirectly, in cash or other property or by setoff or in any other manner, payment or security on account of such Conditional Rights. If, notwithstanding the foregoing provisions, any amount shall be paid to the Guarantor on account of any such Conditional Rights and either (i) such amount is paid to the Guarantor at any time when the Obligations shall not have been paid or performed in full, or (ii) regardless of when such amount is paid to the Guarantor, any payment made by the Debtors (or either of them) to the Lender is at any time determined to be a Preferential Payment (as defined below), then such amount paid to the Guarantor shall be held in trust for the benefit of the Lender and shall forthwith be paid to the Lender to be credited and applied upon the Obligations.

(b) To the extent that any of the provisions of subparagraph (a) of this Section 1.9 shall not be enforceable, the Guarantor agrees that until such time as the Obligations have been indefeasibly paid and performed in full and the period of time has expired during which any payment made by the Debtors (or either of them) or the Guarantor to the Lender may be determined to be a Preferential Payment, the Conditional Rights, to the extent not validly waived, shall be fully subordinate to the Lender's right to full payment and performance of the Obligations, and the Guarantor shall not enforce any Conditional Rights until such time as the Obligations have been indefeasibly paid and performed in full and the period of time has expired during which any payment made by Debtors (or either of them) or the Guarantor to the Lender may be determined to be a Preferential Payment.

(c) For purposes of this Section 1.9, the term "Preferential Payment" shall refer to any payment, voluntary or involuntary (including by way of setoff), by the Debtors (or either of them) or the Guarantor to the Lender in respect of the Obligations, all or any part of which is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid by the recipient thereof or paid over to a trustee, receiver or any other entity, whether under the bankruptcy code or otherwise.

1.10 Debtors' Financial Condition. The Guarantor acknowledges that it has, independently of an without reliance on the Lender, made its own credit analysis of the Debtors and the collateral and performed its own legal review of this Guarantee, the Note, the Security Agreement and all related filings; and the Guarantor is not relying on the Lender with respect to any of the aforesaid items. The Guarantor has established adequate means of obtaining from the Debtors on a continuing basis financial and other information pertaining to the Debtors' financial condition and the value of the Collateral. The Guarantor agrees to keep adequately informed of any facts, events or circumstances which might in any way affect the Guarantor's risks hereunder, and the Guarantor further agrees that the Lender shall have no obligation to disclose to the Guarantor information or material with respect to the Debtors or any Collateral. The Guarantor acknowledges that its obligation hereunder will

not be affected by (a) the Lender's failure properly to create a lien on the Collateral or any of it, (b) the Lender's failure to create or maintain a priority with respect to the lien on or in the Collateral or any of it, or (c) any act or omission to act on the part of the Lender (whether negligent or otherwise) which adversely affects the value of the Collateral or any of it.

1.11 Debtors' Bankruptcy. Guarantor shall remain obligated to perform promptly under this Guarantee if any Debtor should at any time become insolvent or make a general assignment for the benefit of its creditors, or a petition of bankruptcy or any insolvency or reorganization proceeding shall be filed or commenced, by, against or in respect of any Debtor, notwithstanding any stay or other prohibition preventing the Lender from proceeding against such Debtor.

1.12 Expenses. In addition to its guarantee hereunder of the Obligations, the Guarantor hereby agrees to pay all interest accrued thereon during, and all costs and expenses (including, without limitation, attorneys fees) incurred or paid by the Lender in connection with the collection of the Obligations and the enforcement of the rights of the Lender hereunder.

2. Representations and Warranties.

2.1 Organization. The Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the State of California.

2.2 Power and Authority. The execution, delivery and performance by the Guarantor of this Guarantee are within the Guarantor's corporate powers and have been duly authorized by all necessary action; do not contravene the Guarantor's charter documents or any law or any contractual restriction binding on or affecting the Guarantor or by which the Guarantor's property may be affected, do not require any authorization or approval or other action by, or any notice to or filing, registration or recording with, any governmental agency or any other entity.

2.3 Binding Effect. This Guarantee constitutes the legal, valid and binding obligation of the Guarantor, enforceable in accordance with its terms, except as the enforceability thereof may be subject to or limited by bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws relating to or affecting the rights of creditors and by general principles of equity, and without defense, counterclaim or offset.

3. Miscellaneous.

3.1 Governing Laws. The internal laws of the State of California (irrespective of its choice of law principles) shall govern the validity, interpretation and enforcement of this Guarantee. The Guarantor hereby submits to the exclusive and personal jurisdiction of the state and federal courts in Santa Clara County, California.

3.2 Binding Upon Successors and Assigns. This Guarantee may not be assigned, in whole or in part, without the prior written consent of the Lender. Subject to the foregoing, each and all of the covenants, terms, provisions, and agreements contained herein shall be binding upon, and inure to the benefit of, the permitted successors, executors, heirs, representatives, administrators and assigns of the parties hereto. This Guarantee may be assigned, in whole or in part, by the Lender to any subsequent holder of all or any portion of the Obligations.

3.3 Severability. If any provision of this Guarantee, or the application thereof, shall for any reason and to any extent be invalid or unenforceable, the remainder of this Guarantee and application of such provision to other persons or circumstances shall be interpreted so as best to reasonably effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Guarantee with a valid and enforceable provision which will achieve, to the extent possible, the economic, business and other purposes of the void or unenforceable provision.

3.4 Entire Guarantee. This Guarantee constitutes the entire understanding and agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements or understandings, written or oral, between the parties with respect hereto. The express terms hereof control and supersede any course of performance or usage of the trade inconsistent with any of the terms hereof.

3.5 Counterparts. This Guarantee may be executed in any number of counterparts, each of which shall be an original as against any party whose signature appears thereon and all of which together shall constitute one and the same instrument.

3.6 Amendment and Waiver. Any term or provision of this Guarantee may be amended, and the observance of any term of this Guarantee may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a writing signed by the Guarantor and the Lender. The waiver by a party of any breach hereof for default in payment of any amount due hereunder or default in the performance hereof shall not be deemed to constitute a waiver of any other default or succeeding breach or default.

3.7 No Waiver. The failure of any party to enforce any of the provisions hereof shall not be construed to be a waiver of the right of such party thereafter to enforce such provisions.

3.8 Attorneys' Fees. Should suit be brought to enforce or interpret any part of this Guarantee, the prevailing party shall be entitled to recover, as an element of the costs of suit and not as damages, reasonable attorneys' fees to be fixed by the court (including without limitation, costs, expenses and fees on any appeal).

3.9 Notices. Any notices under this Guarantee shall be in

writing and shall be effective only if it is delivered by personal service or mailed by prepaid first class mail, return receipt requested, addressed as set forth on the first page hereof or to any new address given to the other party in accordance with this Section 3.9. Guarantor agrees to inform the Lender promptly of any change of the address to which notice should be sent. Notices to the Lender shall be Attn: Chief Financial Officer, and notices to Guarantor shall be Attn: Nancy Dusseau. Such communications shall be effective when they are received by the addressee thereof, but if sent by first class mail in the manner set forth above, they shall be effective five (5) days after being deposited in the official mail.

IT WITNESS WHEREOF, the parties hereto have executed this Guarantee as of the date first hereinabove written.

GUARANTOR:

TECHFARM, INC.

By:

Title: President

THE LENDER:

CHIPS AND TECHNOLOGIES, INC.

By:

Title: President and CEO

RESTATED LOAN AND SECURITY AGREEMENT

This Restated Loan and Security Agreement (this "Restated Security Agreement") is made as of the 31st day of March, 1994 by and among Techfarm, Inc., a California corporation, having its principal place of business at 404 Tasman, Sunnyvale, California 94089 (hereinafter called "Techfarm"), Chips & Technologies JV Cyprus Ltd., a corporation formed under the laws of Cyprus having its official place of business at P.O. Box 1687, Nicosia, Cyprus (hereinafter "C&T Cyprus"), Summit Systems J.V., an organization originally formed under the laws of the USSR, having its official place of business at 22210, Belarus Minsk District, Smolevishy Region, Minsk-2 Airport, Russia (hereinafter "Summit") and Chips and Technologies, Inc., a Delaware corporation, having its principal place of business at 2950 Zanker, San Jose, California 95134 (hereinafter called the "Secured Party"). C&T Cyprus and Summit are collectively referred to as the "Debtors". Unless otherwise defined, the terms used in this Restated Security Agreement shall have the meanings given them in

the California Uniform Commercial Code (the "Code").

R E C I T A L S

WHEREAS, Techfarm purchased from the Secured Party, pursuant to an Asset Purchase Agreement dated as of September 24, 1993 (the "Purchase Agreement"), certain assets and businesses identified in the Purchase Agreement as Purchased Assets (the "Purchased Assets") and Acquired Businesses (the "Acquired Businesses"), respectively, and delivered to Secured Party, as part of the consideration therefor, a promissory note in the principal amount of $1,615,000.00 (the "Note") and a Security Agreement dated as of September 24, 1993 (the "Original Agreement"); and

WHEREAS, the Secured Party and Techfarm have agreed that Techfarm shall be removed as an obligor on the Note by execution and delivery of a Restated Note of even date herewith (the "Restated Note"), the Debtors shall become co-obligors with respect to its obligations under the Original Agreement as provided in this Restated Security Agreement, and Techfarm shall guarantee the Debtors' obligations under the Restated Note by delivering to Chips a Secured Continuing Guarantee (the "Guarantee").

On the basis of the foregoing and the mutual promises contained herein, the parties hereto agree as follows:

Article 1. Security Interest.

1.1 Grant of Security Interest by Debtors. In consideration for Secured Party's acceptance of the Note from the Debtors, and to secure the full, prompt and unconditional payment of all amounts due under the Restated Note (including interest thereon accruing from September 24, 1993) and in connection with any extension of credit by the Secured Party in favor of the Debtors pursuant to the Purchase Agreement, including any extensions, amendments or substitutions thereof, or any new advances under the Restated Note or the Purchase Agreement, and the strict performance and observance by the Debtors of all agreements, warranties and covenants of this Agreement (the "Obligations"), (a) C&T Cyprus hereby pledges, assigns, transfers and grants to the Secured Party, a continuing security interest under the Code in and to all the capital stock or equity interests of Summit (or any successor to Summit formed after the date hereof) now or hereafter owned by C&T Cyprus and (b) Summit hereby pledges, assigns, transfers and grants to the Secured Party, a continuing security interest under the Code in and to all assets of Summit including, without limitation, all inventory, equipment, accounts, fixtures, chattel paper, instruments and general intangibles now owned or hereafter acquired of Summit (collectively, the "Debtors' Collateral"). The parties agree that the date of grant of this security interest shall be deemed to be the date of the Original Agreement, and that the security interest shall have continued in full force and effect from such date.

1.2 Grant of Security Interest by Techfarm. In consideration for Secured Party's acceptance of the Note from the Debtors, and to secure the full, prompt and unconditional payment of all amounts due under the Guarantee and the strict performance and observance by Techfarm of all of its obligations thereunder, Techfarm hereby pledges, assigns, transfers and grants to the Secured Party, a continuing security interest under the Code in and to all the capital stock or equity interests of C&T Cyprus (or any successor to C&T Cyprus formed after the date hereof) now or hereafter owned by Techfarm (the "Techfarm Collateral" and, together with the Debtors' Collateral, the "Collateral"). The parties agree that the date of grant of this security interest shall be deemed to be the date of the Original Agreement, and that the security interest shall have continued in full force and effect from such date.

1.3 Further Assurances. Each Debtor and Techfarm shall deliver to the Secured Party all stock certificates evidencing the Collateral, together with stock powers attached thereto endorsed in blank, as such certificates are available. Each Debtor and Techfarm shall deliver to the Secured Party such instruments, agreements, certificates and documents (including Uniform Commercial Code financing statements and other documents or security agreements required under the laws of the jurisdictions in which any Collateral is located) as the Secured Party may reasonably request to perfect, maintain and evidence the liens granted to the Secured Party by Sections 1.1 and 1.2 hereof, subject

to no other liens or encumbrances of any kind other than any that may be agreed to by the Secured Party in writing.

1.4 Guarantee. Techfarm agrees to deliver to Secured Party upon execution of this Agreement by all parties the Guarantee in substantially the form attached hereto as Exhibit A.

Article 2. Covenants.

2.1 Liens. Except for liens in favor of the Secured Party or additional liens permitted by the Secured Party in writing, each Debtor shall not mortgage, pledge or grant a lien upon any of the Debtors' Collateral, and Techfarm shall not mortgage, pledge or grant a lien upon the Techfarm Collateral.

2.2 Maintenance of Collateral. Each Debtor and Techfarm shall perform all acts that may be reasonably necessary to maintain, preserve, protect and perfect the Collateral, the lien granted to the Secured Party therein and the first priority of such lien; provided, however, nothing herein shall prevent the sale of any Debtors' Collateral in the ordinary course of business other than any equity interest in Summit.

2.3 Insurance. To the extent any Debtor maintains property or liability insurance with respect to its Collateral, it shall cause the Secured Party to be named as loss payee on any such property insurance policy and as additional insured on any liability policy.

2.4 Mandatory Prepayment of the Restated Note. Each Debtor hereby agrees that the principal and interest on the Restated Note shall become immediately due and payable to the extent of cash proceeds (net of selling expenses) received by Techfarm or any Debtor in connection with the following:

(a) The sale or transfer by Techfarm of any of the Purchased Assets or Acquired Businesses if Techfarm shall not immediately following such sale obtain or retain, directly or indirectly, a material equity interest in such purchaser or transferee (a "Transferee");

(b) The sale or transfer by Techfarm of all or substantially all of its equity interests in C&T Cyprus or a Transferee if immediately following such sale Techfarm does not have, directly or indirectly, a material equity interest in C&T Cyprus or such Transferee, as applicable;

(c) The sale or transfer by C&T Cyprus of all or substantially all of its equity interests in Summit if immediately following such sale C&T Cyprus does not have, directly or indirectly, a material equity interest in Summit; or

(d) The sale or transfer by Techfarm, any Debtor or any Transferee of all or substantially all of the Purchased Assets or Acquired Businesses owned by such person, if such party shall not immediately following such sale obtain or retain, directly or indirectly, a material equity interest in such purchaser or transferee;

provided, however, that no prepayment shall become due in connection with (1) any sale of any Purchased Assets in the ordinary course of business, or (2) any sale of immaterial portions of such Purchased Assets or Acquired Businesses.

2.5 Prepayment in Full of the Restated Note. Each Debtor and Techfarm hereby agrees that the principal and accrued interest on the Restated Note shall become immediately due and payable in full upon the sale or transfer by all of the original holders of capital stock of Techfarm of all or substantially all of their stock of Techfarm unless simultaneously with such sale or transfer one or more of such holders obtains or retains, directly or indirectly, a material equity interest in such purchaser or transferee.

2.6 Acquisition by C&T Cyprus of 100% Interest in Summit. Techfarm agrees to use its reasonable best efforts to cause C&T Cyprus to acquire as promptly as practicable one hundred percent (100%) of the ownership interests of Summit.

Article 3. Default.

3.1 Events of Default. The term "Event of Default," as used herein, shall mean the occurrence and continuation of any one or more of the following events:

(a) Any Debtor shall fail to make any payment under the Restated Note or this Restated Security Agreement within ten (10) days after such payment is due in accordance with the terms thereof or hereof; or

(b) Techfarm shall fail to make any payment under the Guarantee within ten (10) days after such payment is due in accordance with the terms thereof; or

(c) Techfarm or any Debtor shall fail to satisfy or comply with any of the material terms or conditions of this Agreement to be performed by it and such failure shall continue for thirty (30) days after written notice from the Secured Party to Techfarm or such Debtor, as the case may be, specifying such failure; or

(d) Any of the representations or warranties set forth in Article 4 hereof shall prove to have been false or misleading in any material respect when made, or shall have been breached and such breach shall continue for thirty (30) days after written notice from the Secured Party to Techfarm or the relevant Debtor specifying such breach; or

(e) An "event of default" shall occur under any of the security or other agreements securing the Obligations executed by Techfarm or any of the Debtors; or

(f) Techfarm or any Debtor shall voluntarily make an assignment for the benefit of creditors or voluntarily commence proceedings under the United States Bankruptcy Code or any other insolvency, receivership, reorganization or debtor's relief law, or have any such proceedings instituted against it that are not stayed or dismissed within ninety (90) days.

3.2 Rights Upon Default. Upon the occurrence of an Event of Default, the Secured Party shall have the right to immediately demand payment of the Restated Note and the other Obligations, to foreclose the security interest by any available judicial procedure and to demand, sue for, collect or make any compromise or settlement the Secured Party deems suitable in respect of any Collateral, and to pursue any other remedy available to the Secured Party under the Guarantee, under the Code or under other applicable law as enacted in any jurisdiction in which the Collateral may be located.

3.3 Costs and Attorneys' Fees. Each Debtor and Techfarm agrees to pay all costs and expenses (including reasonable attorneys' fees and expenses) of the Secured Party incidental to the sale of, or realization upon, any of the Collateral or in any way relating to the enforcement or protection or preservation of the rights of the Secured Party hereunder as against any Debtor or Techfarm.

3.4 Rights of Secured Party; No Waiver. The Secured Party shall have all the rights of a Secured Party under the Code and, in addition, shall have

all the rights specified herein. No failure on the part of the Secured Party to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the

Secured Party of any right, remedy or power hereunder preclude any other or future exercise of any other right, remedy or power.

3.5 Release of Security Interest. Upon payment in full of all Obligations owed by Techfarm and the Debtors to the Secured Party, the security interest in the Collateral granted under this Agreement shall terminate, and the Secured Party agrees promptly to return to the appropriate party all stock certificates evidencing the Collateral and to file any termination statements or other documents evidencing the termination of such security interest.

Article 4. Representations and Warranties of Techfarm and Each Debtor. Techfarm and each Debtor represents and warrants to the Secured Party as of the date hereof that:

4.1 Title to Properties. To the best of its knowledge, and conditioned upon the transfer of good title by Secured Party to Techfarm under the Purchase Agreement, Techfarm and each Debtor has valid title to and ownership of all the properties and assets purported to be owned by it, and a valid leasehold interest in all the properties and assets leased by it, free from all mortgages, pledges, liens, security interests, conditional sale agreements, encumbrances or charges, except for the perfected security interest granted to the Secured Party hereunder and the other liens as identified in the Purchase Agreement.

4.2 Priority. To the extent the laws of the United States of America or any state thereof govern the creation, perfection and effects of perfection of the security interests granted hereunder, upon the Secured Party's receipt of the certificates representing any capital stock pledged hereunder and the filing of any applicable UCC financing statements, the security interests granted to the Secured Party under this Agreement constitute a perfected security interest in and lien on all of the Collateral, subject only to those liens identified in the Purchase Agreement.

4.3 Ownership of C&T Cyprus. Subject to any title defects that arose on or prior to the transfer of the stock of C&T Cyprus to Techfarm, Techfarm owns all but one share of the outstanding capital stock of C&T Cyprus, consisting of 999 shares of Common Stock.

4.4 Ownership of Summit. C&T Cyprus owns approximately 95% of the ownership interests of Summit.

Article 5. Miscellaneous.

5.1 Entire Contract. This Restated Security Agreement, the Restated Note, the Purchase Agreement and the Guarantee constitute the entire contract

between the parties hereto with respect to the subject matter hereof, and shall supersede all prior agreements, including the Original Agreement. This Restated Security Agreement may not be amended, modified or supplemented except by a written agreement signed by each party.

5.2 Severability. If one or more provisions of this Agreement are held to be invalid, illegal or unenforceable under applicable law, portions of such provisions, or such provisions in their entirety, to the extent necessary, shall be severed from this Agreement, and the balance of this Agreement shall be enforceable in accordance with its terms.

5.3 Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if hand delivered, transmitted by telegram, telex or telecopy or mailed by registered or certified mail, postage prepaid, return receipt requested, if to any Debtor at the address of Techfarm indicated at the beginning of this Agreement and if to the Secured Party at the address indicated at the beginning of this Agreement, or to such other address as the person to whom notice is given may have previously furnished to the other parties in writing in accordance herewith. Notices given by telegram, telex or telecopy and any notices of change of address shall be effective only upon receipt. All other notices sent by mail shall be effective three (3) days after posting.

5.4 Counterparts; Enforceability. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

5.5 Governing Law. It is the intention of the parties hereto that the internal laws of the State of California (irrespective of its choice of law principles) shall govern the validity of this Agreement, the construction of its terms, and the interpretation and enforcement of the rights and duties of the parties hereto. The parties hereto acknowledge that certain actions may need to be taken under the laws of jurisdictions other than California in order to carry out the transactions contemplated by this Agreement.

5.6 Binding Upon Successors and Assigns. This Agreement and the rights and obligations of the parties hereunder shall be binding upon, and inure to the benefit of, the permitted successors and assigns of the parties hereto.

5.7 Change of Address. Techfarm and each Debtor agree to notify the Secured Party of any change of address of such person's principal place of business.

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

Techfarm:	Secured Party:
TECHFARM, INC.	CHIPS AND TECHNOLOGIES, INC.

By: /s/
- ----------

Title: /s/
- ----------

By: /s/

Title: /s/

CHIPS & TECHNOLOGIES JV CYPRUS LTD.

By: /s/
- ----------

Title: /s/
- ----------

SUMMIT SYSTEMS JV

By: /s/

Title: /s/

CHIPS LOGO GOES HERE

Chips and Technologies, Inc.

August 1, 1994

Mr. Keith Angelo
c/o Chips and Technologies, Inc.
2950 Zanker Road
San Jose, California

Dear Keith

This will confirm our agreement, as follows:

1. Upon your execution of the attached promissory note, Chips will loan you the amount of $100,000. The terms of repayment and forgiveness are set forth in the promissory note.

2. Your employment with Chips is "at will;" either you or Chips may terminate your employment at any time, with or without cause.

3. Neither you nor Chips may disclose, directly or indirectly, to any person or entity, the fact or amount of Chips' loan to you or the lterms of the promissory note, except as such disclosure may be required for tax or accounting purposes, or as otherwise required by law.

Please signify your acceptance of the foregoing terms by signing and returning one copy of this letter. Please also be sure to contact your tax advisor or an attorney concerning the tax consequences to you of this transaction and of any loan foregiveness.

Very truly yours,

/s/ James F. Stafford

James F. Stafford
President and CEO

PROMISSORY NOTE

$100,000.00 San Jose, California
Due upon Demand August 1, 1994

FOR VALUE RECEIVED, I, KEITH ANGELO, promise to pay to CHIPS AND TECHNOLOGIES, INC. ("Chips"), or order, at San Jose, California, or at such place or places as the holder of this Note may from time to time designate in writing, the principal sum of One Hundred Thousand Dollars ($100,000.00), with interest compounded annually from the date hereof at the rate of the greater of seven percent (7%) per annum or the minimum rate necessary to avoid the imputation of interest under Section 7872 of the Internal Revenue Code.

Except as stated above, such principal and accrued and unpaid interest shall be paid in full within thirty (30) days of written demand by Chips. Chips is entitled to demand full payment of outstanding and unforgiven principal and accrued interest under the following circumstances:

(1) Mr. Angelo voluntarily terminates his employment with Chips before August 1, 1998;

(2) Chips terminates Mr. Angelo's employment for cause before August 1, 1998. For the purposes hereof, "cause" shall mean: (i) embezzlement or misappropriation of corporate assets; (ii) any unlawful or criminal activity; (iii) willful refusal to carry out decisions or instructions of his supervisors; (iv) deliberate violation of Chips' policies; (v) deliberate unauthorized disclosure of Chips' trade secrets or other confidential or proprietary information; or (vi) unsatisfactory performance of his job duties and responsibilities.

(3) In the event Chips terminates Mr. Angelo's employment for any reason other than those enumerated in (2) above, the Board of Directors shall establish an appropriate repayment and/or forgiveness schedule.

If on the following dates Mr. Angelo remains a full-time Chips employee, Chips will forgive the amounts set forth below and all interest accrued through that date:

August 1, 1995	$25,000.00
August 1, 1996	$25,000.00
August 1, 1997	$25,000.00
August 1, 1998	$25,000.00

This Note may be prepaid at any time, in whole or in part, without premium or penalty. Any such payment shall be credited first to interest then accrued and the remainder to principal; and interest shall thereupon cease to

accrue upon principal so credited. Principal and interest are payable in lawful money of the United States.

If any amount due under the terms of this Note is not paid in full, the undersigned agrees to pay all reasonable costs and expenses of collection, including attorneys' fees. The undersigned also waives presentment, demand, protest, notice of protest, notice of dishonor, notice of nonpayment, any and all other notices and demands in connection with the delivery, acceptance, performance, default or enforcement of this Note. No delay by the holder hereof in exercising any power or right hereunder shall operate as a waiver of any power or right.

This Note shall be governed by and construed in accordance with the laws of the State of California.

/s/ Keith Angelo 8/1/94

Keith Angelo

CHIPS AND TECHNOLOGIES, INC.

By /s/ Jim Stafford

Name /s/ Jim Stafford

Title President and CEO

INDEPENDENT CONTRACTOR SERVICES AGREEMENT

THIS AGREEMENT ("Agreement") is entered into as of the 11th day of August, 1994 by and between CHIPS AND TECHNOLOGIES, INC. ("Chips"), a Delaware corporation, having its principal place of business at 2950 Zanker Road, San Jose, California 95134, and JARRAT GLOBAL ENTERPRISES, INC. ("Contractor"), having its principal place of business at 470 Quail Ridge Road, Scotts Valley, CA 95066.

1. Engagement of Services.

Contractor agrees to perform services for Chips as follows: Act as a business advisor to Chips, including but not limited to (1) being a sounding board to CEO and management team on critical business and organizational issues; (2) engaging in monthly management business reviews and quarterly financial reviews; (3) assisting with long range planning, including corporate missions and strategy and (4) assisting with development of key U.S. and foreign corporate partners as well as key customer and supplier relationships.

Chips selected Contractor to perform these services based upon Chips receiving Henri Jarrat's personal service and therefore Contractor may not subcontract or otherwise delegate its obligations under this Agreement without Chips' prior written consent.

2. Compensation.

Chips will pay Contractor a fee in the amount of Eight Thousand Dollars ($8,000.00) per month for services rendered by Contractor pursuant to this Agreement. In addition, Contractor will receive stock options in an amount to be determined by the Compensation Committee of Chips' Board of Directors. Contractor will be reimbursed for reasonable expenses incurred in connection with the performance of services under this Agreement, provided those expenses are approved by Chips' President or CFO. No travel expenses will be incurred by Contractor without the prior written consent of Chips' President or CFO.

3. Independent Contractor Relationship.

Contractor and Chips understand, acknowledge and agree that Contractor's relationship with Chips will be that of an independent contractor, and nothing in this Agreement is intended to or should be construed to create a partnership, joint venture, or employment relationship. Neither party shall have any right, power or authority to create any obligations, expressed or implied, on behalf of the other. Chips will make no withholding or deductions from any

compensation paid to Contractor for taxes, insurance or the like.

4. Confidential Information.

4.1 Contractor represents that his performance of all of the terms of this Agreement does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data of a third party and Contractor will not disclose to Chips, or induce Chips to use, any confidential or proprietary information belonging to third parties unless such use or disclosure is authorized in writing by such owners.

4.2 Contractor agrees during the term of this Agreement and thereafter to take all steps reasonably necessary to hold in trust and confidence information which he knows or has reason to know is considered confidential by Chips ("Confidential Information"). Contractor agrees to use the Confidential Information solely to perform his duties hereunder. Confidential Information includes, but is not limited to, technical and business information relating to Chips' inventions or products, research and development, manufacturing and engineering processes, and future business plans. Contractor's obligations with respect to the Confidential Information also extend to any third party's proprietary or confidential information disclosed to Contractor in the course of providing services to Chips. This obligation shall not extend to any information which becomes generally known to the public without breach of this Agreement. This obligation shall survive the termination of this Agreement.

5. No Conflict of Interest. Contractor agrees during the term of this Agreement not to perform or accept work, enter into a contract, or accept an obligation inconsistent or incompatible with Contractor's obligations or the scope of services rendered for Chips under this Agreement. Unless Chips consents in writing, Contractor will not engage in any work in any capacity for any individual, company or entity that competes with Chips in any area or aspect of Chips' business.

6. Return of Chips' Property. Contractor acknowledges that Chips' sole and exclusive property includes all documents, such as drawings, manuals, notebooks, reports, sketches, records, business plans, contracts, computer programs, employee lists, customer lists and the like in his custody or possession, whether delivered to Contractor by Chips or made by Contractor in the performance of services under this Agreement, relating to the business activities of Chips or its customers or suppliers and containing any information or data whatsoever, whether or not Confidential Information. Contractor agrees to deliver promptly all of Chips' property and all copies of Chips' property in

Contractor's possession to Chips at any time upon Chips' request, and in any event immediately upon termination of this Agreement.

7. Termination - Noninterference with Business.

7.1 Termination. Either party may terminate this

Agreement at any time for any reason or for no reason upon thirty (30) days prior written notice to the other party.

7.2 Noninterference with Business. During and for a period of two (2) years immediately following termination of this Agreement by either party, Contractor agrees not to solicit or induce any employee or independent contractor to terminate or breach an employment, contractual or other relationship with Chips.

8. General Provisions.

8.1 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the United States and the State of California as applied to agreements entered into and to be performed entirely within California between California residents.

8.2 Entire Agreement. Except to the extent there may be other agreements relating solely to Henri Jarrat's service as a director of Chips, and except for any agreements related to stock options granted to Henri Jarrat in his capacity as a consultant for Chips, this Agreement constitutes the entire agreement between the parties relating to this subject matter and supersedes all prior or simultaneous representations, discussions, negotiations, and agreements, whether written or oral.

8.3 Waiver. No term or provision hereof will be considered waived by either party, and no breach excused by either party, unless such waiver or consent is in writing signed on behalf of the party against whom the waiver is asserted. No consent by either party to, or waiver of, a breach by either party, whether express or implied, will constitute a consent to, waiver of, or excuse of any other, different, or subsequent breach by either party.

8.4 Assignment. Neither party may assign its rights or obligations arising under this Agreement without the other's prior written consent.

8.5 Legal Fees. If any dispute arises between the parties with respect to the matters covered by this Agreement which leads to a proceeding to resolve such dispute, the prevailing party in such proceeding shall be entitled to receive its reasonable attorneys' fees, expert witness fees and out-of-pocket

costs incurred in connection with such proceeding, in addition to any other relief to which it may be entitled.

8.6 Notices. All notices, requests and other communications required to be given under this Agreement must be in writing, and must be mailed by registered or certified mail, postage prepaid and return receipt requested, or delivered by hand to the party to whom such notice is required or permitted to be given. Any such notice will be considered to have been given when received, or if mailed, five (5) business days after it was mailed, as evidenced by the postmark. The mailing address for notice to either party will be the address shown on the signature page of this Agreement. Either party may change its mailing address by notice as provided by this Section 8.6.

8.7 Survival. The following provisions shall survive termination of this Agreement: Article 4 and Section 7.2.

8.8 Term. This Agreement is effective as of August 11, 1994, and will terminate on November 10, 1996, unless terminated earlier in accordance with Section 7.1 herein.

CHIPS:	CONTRACTOR:
CHIPS AND TECHNOLOGIES, INC.	JARRAT GLOBAL ENTERPRISES, INC.
By /s/ Jim Stafford	By /s/ Henri A. Jarrat
Jim Stafford President and CEO	Henri A. Jarrat President

<TABLE>

Exhibit 11.1

CHIPS & TECHNOLOGIES, INC.

CALCULATION OF EARNINGS (LOSS) PER SHARE

<CAPTION>

In thousands except per share amount

	Year ended June 30, 1994	1993	1992
<S>	<C>	<C>	<C>
PRIMARY:			
Weighted average common shares outstanding	16,500	15,650	14,332
Dilutive common stock equivalents:			
Convertible preferred stock	123	- -	- -
Common and common equivalent shares used in the calculation of net income (loss) per share	16,623	15,650	14,332
Net income (loss)	$2,714	($49,055)	($63,873)
Earnings (loss) per share	$0.16	($3.13)	($4.46)
FULLY DILUTED:			
Weighted average common shares outstanding	16,500	15,650	14,332
Dilutive common stock equivalents:			
Convertible preferred stock	123	- -	- -
Common and common equivalent shares used in the calculation of net income (loss) per share	16,623	15,650	14,332
Net income (loss)	$2,714	($49,055)	($63,873)
Earnings (loss) per share	$0.16	($3.13)	($4.46)

</TABLE>

CHIPS AND TECHNOLOGIES, INC.
2950 ZANKER ROAD
SAN JOSE, CALIFORNIA 95134

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD NOVEMBER 10, 1994

To the Stockholders of Chips and Technologies, Inc.:

Notice is hereby given that the Annual Meeting of the Stockholders of Chips and Technologies, Inc., will be held on November 10, 1994, at 3:30 p.m. at the Sheraton San Jose Hotel, 1801 Barber Lane, Milpitas, California 95035 for the following purposes:

1. To elect one (1) Class II director.

2. To consider a proposal to amend and restate the Chips and Technologies, Inc. 1985 Stock Option Plan (the "Option Plan") to modify certain provisions in order to comply with changes in applicable laws and to renew the Option Plan which will otherwise terminate on January 11, 1995.

3. To consider a proposal to ratify the appointment of Price Waterhouse LLP as the independent accountants of the Company for the fiscal year ending June 30, 1995.

4. To transact such other business as may properly come before the meeting.

Stockholders of record at the close of business on September 12, 1994 are entitled to notice of, and to vote at, this meeting and any adjournments thereof. For ten days prior to the meeting, a complete list of the stockholders entitled to vote at the meeting will be available for examination by any stockholder for any purpose germane to the meeting during ordinary business hours at the Sheraton San Jose Hotel, 1801 Barber Lane, Milpitas, California 95035.

By Order of the Board of Directors

Jeffery Anne Tatum, Secretary

San Jose, California
September 30, 1994

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO SIGN AND PROMPTLY MAIL THE ENCLOSED PROXY IN THE RETURN ENVELOPE SO THAT YOUR STOCK MAY BE REPRESENTED AT THE MEETING.

CHIPS AND TECHNOLOGIES, INC.
2950 ZANKER ROAD
SAN JOSE, CALIFORNIA 95134

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS

The accompanying proxy is solicited by the Board of Directors of Chips and Technologies, Inc. (the "Company") for use at the Annual Meeting of Stockholders to be held November 10, 1994, or any adjournment thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. This Proxy Statement and accompanying proxy are being first sent to stockholders on approximately September 30, 1994.

GENERAL INFORMATION

Annual Report. An annual report for the fiscal year ended June 30, 1994 is enclosed with this Proxy Statement.

Voting Securities. Only stockholders of record as of the close of business on September 12, 1994 will be entitled to vote at the meeting and any adjournment thereof. As of that date, there were 16,900,893 shares of Common Stock and 122,845 shares of Series A Preferred Stock of the Company issued and outstanding. Each holder of shares of Common Stock or Series A Preferred Stock

is entitled to one (1) vote for each share of stock held by him or her on the proposals presented in this Proxy Statement. Stockholders may vote in person or by proxy. The Company's Bylaws provide that a majority of all of the shares of stock entitled to vote, whether present in person or represented by proxy, shall constitute a quorum for the transaction of business at the meeting.

Solicitation of Proxies. The cost of soliciting proxies will be borne by the Company. In addition to soliciting stockholders by mail through its regular employees, the Company will request banks and brokers to solicit customers of theirs who have stock of the Company registered in the names of such banks and brokers or their nominees, and will reimburse such banks and brokers for their reasonable, out-of-pocket costs. The Company may use the services of its officers, directors, and others, including professional proxy solicitors, to solicit proxies, personally or by telephone.

Voting of Proxies. All valid proxies received prior to the meeting will be voted. All shares represented by a proxy will be voted and, where a stockholder specifies by means of the proxy a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the specification so made. If no choice is indicated on the proxy, the shares will be voted for each nominee and in favor of each proposal. A stockholder giving a proxy has the power to revoke his or her proxy at any time prior to the closing of the polls at the meeting by delivery to the Secretary of the Company of a written instrument revoking the proxy or a duly executed proxy with a later date, or by attending the meeting and voting in person.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the Company's Common Stock owned on June 30, 1994 by (i) each person who is known by the Company to own beneficially more than 5% of the Company's Common Stock, (ii) each director and director nominee of the Company, (iii) the two individuals who served as the Chief Executive Officer during fiscal 1994, and the other most highly compensated executive officers whose compensation is disclosed under the caption "Executive Compensation and Other Matters," and (iv) all executive officers and directors of the Company as a group.

	SHARES OWNED (1)	
NAME AND ADDRESS OF BENEFICIAL OWNERS	NUMBER OF SHARES	PERCENTAGE OF CLASS
Gordon A. Campbell(2)	1,638,290(3)	9.33
James F. Stafford	502,077(4)	2.89
Keith Angelo	195,503(5)	1.14
Gene P. Carter	120,179(6)	*
Richard E. Christopher	140,000(7)	*
Scott E. Cutler	132,631(8)	*
Henri A. Jarrat(9)	0	*
Morris E. Jones, Jr	475,637(10)	2.78
Lawrence A. Roffelsen	155,000(11)	*
Bernard V. Vonderschmitt	36,300(12)	*
All directors and executive officers as a group (12 persons)	3,665,717(13)	18.99%

* Represents less than 1%

1 Unless otherwise indicated below, the persons and entities named in the above table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

2 The address of Mr. Campbell is 404 Tasman Drive, Sunnyvale, California 94089.

3 Includes 675,000 shares subject to immediately exercisable options. Includes 82,605 unvested shares.

4 Includes 500,000 shares subject to immediately exercisable options. Includes 189,584 unvested shares.

5 Includes 194,500 shares subject to immediately exercisable options.

Includes 111,359 unvested shares.

6 Includes 70,000 shares subject to immediately exercisable options.
Includes 32,397 unvested shares.

7 All shares are subject to an immediately exercisable option.
Includes 81,563 unvested shares.

8 Includes 125,000 shares subject to immediately exercisable options.
Includes 47,815 unvested shares.

9 Mr. Jarrat was appointed a director of the Company in August 1994, at which time he was granted an option to purchase 20,000 shares, all of which are unvested.

10 Includes 255,000 shares subject to immediately exercisable options.
Includes 76,669 unvested shares.

11 All shares are subject to an immediately exercisable option.
Includes 93,959 unvested shares.

12 Includes 35,000 shares subject to immediately exercisable options.
Includes 21,147 unvested shares.

13 Includes 2,419,500 shares subject to immediately exercisable options.
Includes 953,453 unvested shares.

PROPOSAL ONE

NOMINATION AND ELECTION OF DIRECTORS

Pursuant to the Bylaws and actions of the Board of Directors, five (5) directors constitute the full Board of Directors. The directors are divided into three classes, with one class to be elected for a three year term at each annual meeting of stockholders. Gordon A. Campbell and Gene P. Carter, whose terms expire in 1995, currently serve as the Class I directors. Bernard V. Vonderschmitt was appointed a Class II director in August 1992 and his term expires in 1994. Henri A. Jarrat was appointed a Class III director in August 1994. The terms of Mr. Jarrat and James F. Stafford, the other Class III director, will expire in 1996.

At the Annual Meeting of Stockholders, one (1) director, Bernard V. Vonderschmitt, is nominated for election to Class II of the Board of Directors, to hold office until the earlier to occur of (i) the meeting of stockholders to be held in 1997 and the election and qualification of a successor, or (ii) a resignation or the vacancy of office as a result of death, removal, or other cause in accordance with the Bylaws of the Company.

If a quorum is present and voting, the nominee for the Class II director receiving the highest number of votes will be elected as the Class II director. Abstentions and shares held by brokers that are present, but not voted because the brokers were prohibited from exercising discretionary authority, i.e., "broker non-votes," will be counted as present in determining if a quorum is present.

<TABLE>

Certain information concerning the current directors, including the Class II nominee to be elected at this meeting, is set forth below.
<CAPTION>

Director	Position with the Company	Age	Term
<S>	<C>	<C>	<C>
Gordon A. Campbell	Chairman of the Board	50	Director since 1984; term ends 1995.
Gene P. Carter	Director	60	Director since 1988; term ends 1995.
Henri A. Jarrat	Direct	56	Director since 1994; term ends 1996.
James F. Stafford	President, Chief Executive Officer and Director	50	Director since 1993; term ends 1996.
Bernard V. Vonderschmitt	Director	71	Director since 1992; term ends 1994.

</TABLE>

Mr. Campbell is a founder of the Company and has served as a director

and Chairman of the Board since December 1984, and as President and Chief Executive Officer from January 1985 through July 1993. He is a founder of Techfarm, Inc. and The LAN Guys, Inc., and has served as President and Chairman of the Board for both companies since August 1993. Mr. Campbell was a founder of Seeq Technology, Inc., a semiconductor manufacturer, and from January 1981 to October 1984, he served as that company's President and Chief Executive Officer. From January 1976 to January 1981, he served in various management positions at Intel, a semiconductor manufacturer, most recently as Marketing Manager, Special Products Division. Mr. Campbell also serves as a director on the boards of directors of 3Com Corporation and Bell Micro Devices.

Mr. Carter has served as a director of the Company since March 1988. From August 1977 to September 1984, Mr. Carter served as Vice President of Sales for Apple Computer, Inc. He has been self-employed as a private investor since 1984. Mr. Carter also serves as a director on the board of directors of Adobe Systems, Inc.

Mr. Jarrat was appointed to the Board of Directors in August 1994. He is currently President of Jarrat Global Enterprises, Inc. From 1983 to 1987, he served as President and Chief Operating Officer of VLSI Technology, Inc., and for seven years prior to 1983, he served at Motorola, Inc. as a Corporate Vice President and General Manager.

Mr. Vonderschmitt has served as a director of the Company since August 1992. He is a co-founder of Xilinx, Inc. and has served as its President since February 1984. Prior to founding Xilinx, he spent two and one-half years at Zilog, Inc., then a subsidiary of Exxon, as Vice President and General Manager of the Microprocessor Division. Prior to joining Zilog, he was with RCA for more than twenty years in mostly technical management positions. During his last seven years at RCA, Mr. Vonderschmitt served as Vice President and General Manager of the Solid State Division. Mr. Vonderschmitt also serves as a director on the boards of Xilinx, Inc., IMP, Inc., Sanmina, Inc. and Credence Systems Corporation.

Mr. Stafford was appointed to the Board of Directors in August 1993 and was named President and Chief Executive Officer in July 1993. Mr. Stafford served as Acting Chief Financial Officer from April 1993 until December 31, 1993. He previously served as Senior Vice President and Chief Operating Officer from January 1992 to July 1993, as Senior Vice President, Product Line Operations from February 1990 to January 1992, as Vice President, Product Line Operations from July 1989 to February 1990, as Vice President, Operations from December 1985 to July 1989, and as Director of Operations from January 1985 to December 1985.

During the fiscal year ended June 30, 1994, the Board of Directors held twelve (12) meetings. No director attended fewer than 75% of such meetings of the Board of Directors and the committees on which he serves.

There are two (2) committees of the Board of Directors: the Audit Committee and the Compensation Committee.

The Audit Committee's function is to review with the independent accountants and management the annual financial statements and independent accountants' opinion, review the scope and results of the examination of the Company's financial statements by the independent accountants, approve all professional services performed by the independent accountants and related fees, recommend the retention of the independent accountants to the Board, subject to ratification by the stockholders, and periodically review the Company's accounting policies and internal accounting and financial controls. The members of the Audit Committee are Bernard Vonderschmitt and Gene Carter. During the fiscal year ended June 30, 1994, the Audit Committee held one (1) meeting.

The Compensation Committee's function is to review and recommend salary levels and stock option grants for officers and other employees of the Company. The members of the Compensation Committee are Bernard Vonderschmitt and Gene Carter. During the fiscal year ended June 30, 1994, the Compensation Committee held five (5) meetings.

EXECUTIVE COMPENSATION AND OTHER MATTERS

COMPENSATION OF EXECUTIVE OFFICERS

The following table sets forth information concerning the compensation of the two individuals who served as Chief Executive Officer of the Company during fiscal 1994, and the five other most highly compensated executive officers of the Company as of June 30, 1994 whose total salary and bonus for the fiscal year ended June 30, 1994 exceeded $100,000 during the fiscal years ended June 30, 1992, 1993, and 1994:

<TABLE>

SUMMARY COMPENSATION TABLE

<CAPTION>

		Annual Compensation			Long Term Compensation
					Awards
Name and Principal Position	Fiscal Year	Salary	Bonus	Other Annual Compensation	Options/ Shares
<S>	<C>	<C>	<C>	<C>	<C>
Gordon A. Campbell	1994	$123,857	$0	$230,217(1)	125,000(2)
Chairman of the	1993	$337,513	$0	(3)	350,000(4)
Board (5)	1992	$325,013	$0	(3)	200,000
James F. Stafford	1994	$225,009	$0	(3)	125,000
President, Chief Executive	1993	$181,924	$0	(3)	275,000(6)
Officer and Acting Financial	1992	$178,007	$0	(3)	0
Officer (7)					
Keith Angelo	1994	$141,755	$0	(3)	50,000
Vice President, Marketing (9)	1993	$125,682	$0	(3)	165,000(8)
	1992	$88,404	$0	(3)	15,000
Richard E. Christopher	1994	$158,440	$0	(3)	35,000
Vice President, Sales (10)	1993	$149,121	$0	(3)	180,000(11)
	1992	$0	$0	(3)	0
Scott E. Cutler	1994	$156,006	$0	(3)	20,000
Vice President, Software	1993	$147,006	$0	(3)	65,000(12)
Technology	1992	$143,005	$0	(3)	10,000
Morris E. Jones, Jr.	1994	$178,506	$0	(3)	35,000
Senior Vice President,	1993	$170,715	$0	(3)	150,000(13)
Advanced Products and	1992	$170,006	$0	(3)	50,000
Chief Technical Officer					
Lawrence A. Roffelsen	1994	$141,755	$0	(3)	50,000
Vice President,	1993	$64,430	$0	(3)	105,000
Engineering (14)	1992	$0	$0	(3)	0

<FN>

1 Represents amount earned pursuant to severance agreement. See "Certain Transactions and Other Relationships."

2 Includes an option to purchase 100,000 shares granted on August 17, 1993, which had an exercise price of $6.05 per share and which expired on August 31, 1994.

3 The total amount of personal benefits paid to the named executive officers during the fiscal year was less than the lesser of (i) $50,000 and (ii) 10% of each such executive officer's total reported salary and bonus.

4 Includes an option to purchase 100,000 shares granted on July 27, 1992 at 110% of the fair market value on the date of grant, replacing an option granted in fiscal 1991 which was surrendered. The surrendered option was about to expire and had an exercise price significantly in excess of fair market value.

5 Mr. Campbell resigned as President and Chief Executive Officer in July 1993. Mr. Campbell remains Chairman of the Board.

6 Includes options to purchase 50,000 shares which were repriced on August 3, 1992, replacing options granted in fiscal 1991.

7 Mr. Stafford was promoted to President and Chief Executive Officer in July 1993, and he remained acting Chief Financial Officer until January

1994.

8 Includes options to purchase 105,000 shares which were repriced on August 3, 1992, replacing options granted in fiscal years 1991, 1992 and 1993.

9 Mr. Angelo was promoted to Vice President, Marketing on November 5, 1992.

10 Mr. Christopher commenced his employment with the Company on July 6, 1992.

11 Includes options to purchase 75,000 shares which were repriced on August 3, 1992, replacing options granted in fiscal 1993 which are also included in the above table and which were canceled.

12 Includes options to purchase 10,000 shares which were repriced on August 3, 1992, replacing options granted in fiscal 1992 which are also included in the above table and which were canceled.

13 Includes options to purchase 100,000 shares which were repriced on August 3, 1992, replacing options granted in fiscal 1991 and 1992 which were canceled, including options to purchase 50,000 shares granted in 1992 which are also included in the above table.

14 Mr. Roffelsen's promotion to Vice President, Engineering was ratified on January 7, 1993.

</TABLE>

<TABLE>

STOCK OPTIONS GRANTED IN FISCAL 1994

The following table provides the specified information concerning grants of options to purchase the Company's Common Stock made during the fiscal year ended June 30, 1994, to the persons named in the Summary Compensation Table.

OPTION GRANTS IN LAST FISCAL YEAR

<CAPTION>

	Individual Grants in Fiscal 1994				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
Name	Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	5% ($)	10% ($)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Gordon A. Campbell	100,000	6.01%	$ 6.05	08/31/94	0.00	0.00
	20,000	1.20%	4.00	08/18/98	22,102	48,841
	5,000	0.30%	5.75	11/10/98	7,943	17,552
James F. Stafford	125,000	7.51%	4.00	06/23/04	314,447	796,871
Keith Angelo	50,000	3.00%	4.625	05/27/04	145,432	368,553
Richard E. Christopher	35,000	2.10%	4.625	05/27/04	101,802	257,987
Scott E. Cutler	20,000	1.20%	4.625	05/27/04	58,172	147,421
Morris E. Jones, Jr.	35,000	2.10%	4.625	05/27/04	101,802	257,987
Lawrence A. Roffelsen	50,000	3.00%	4.625	05/27/04	145,432	368,553

<FN>

(1) Potential gains are net of exercise price, but before taxes associated with exercise. These amounts represent certain assumed rates of appreciation only, based on the Securities and Exchange Commission's rules. Actual gains, if any, on stock option exercises are dependent on the future performance of the Company, overall market conditions and the optionholders' continued employment through the vesting period. The amounts reflected in this table may not necessarily be achieved.

</TABLE>

Options Exercises and Fiscal 1994 Year-End Values

The following table provides the specified information concerning exercises of options to purchase the Company's Common Stock in the fiscal year ended June 30, 1994, and unexercised options held as of June 30, 1994, by the persons named in the Summary Compensation Table:

<TABLE>

AGGREGATED OPTION EXERCISES

AND FISCAL YEAR-END VALUES

<CAPTION>

Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at 6/30/94		Value of Unexercised In-the-Money Options at 6/30/94(1)(2)	
			Exercisable(1)	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Gordon A. Campbell	0	$0	675,000	82,605	$0	$0
James F. Stafford	0	$0	500,000	189,584	$21,094	$7,031
Keith Angelo	8,000	$9,500	194,500	111,359	$3,625	$1,875
Richard E. Christopher	0	$0	140,000	81,563	$5,625	$1,875
Scott E. Cutler	0	$0	125,000	47,815	$5,625	$1,875
Morris E. Jones, Jr.	0	$0	255,000	76,669	$9,375	$3,125
Lawrence A. Roffelsen	0	$0	155,000	93,959	$10,312	$3,438

<FN>

1 Generally, Company stock options are immediately exercisable at date of grant, but vest over a four year period at the rate of 1/8th six (6) months after the date of hire for initial grants and 1/48 one (1) month after the date of grant for current employees, and 1/48th per month thereafter for each full month of the optionee's continuous employment with the Company. In addition, certain of the listed options vest based upon the Company attaining profitability. The table indicates the amount of such options which are unvested under the caption "Unexercisable".

2 Based on a value of $3.75 per share which was the closing price of the Company's Common Stock on June 30, 1994. The value shown is for all outstanding options which have an exercise price below the closing price on June 30, 1994 of the Company's Common Stock regardless of vesting restrictions.

</TABLE>

CHANGE OF CONTROL ARRANGEMENTS

Options granted under the Company's Amended and Restated 1985 Stock Option Plan and the Company's 1988 Nonqualified Stock Option Plan for Outside Directors (the "Outside Directors Plan") contain provisions pursuant to which, under certain circumstances, all outstanding options granted under such plans

shall become fully vested and immediately exercisable upon a "transfer of control" as defined in such plans. See "Changes to Benefit Plans" and "PROPOSAL TWO - AMENDED AND RESTATED CHIPS AND TECHNOLOGIES, INC. 1985 STOCK OPTION PLAN."

COMPENSATION OF DIRECTORS

The Company's outside directors each receive $1,500 for each Board of Directors meeting which the director attends. In addition, each receives $1,000 for each committee meeting of the Board of Directors he attends which is held separately from a Board meeting and $500 for each committee meeting he attends that is held consecutively with a Board meeting. See "Certain Transactions and Other Relationships."

The Company's Outside Directors Plan currently provides that upon the effective date of the Outside Directors Plan or initial election to the Board of Directors, each non-employee director (an "Outside Director") will receive a one-time grant of an option to purchase 20,000 shares of the Company's Common Stock and an additional grant of an option to purchase 10,000 shares of the Company's Common Stock on each anniversary of his or her tenure as an Outside Director. The Chairman of the Board receives a stock option to purchase 5,000 shares of the Company's Common Stock on each anniversary of his tenure as Chairman, and each director receives a stock option to purchase 2,500 shares of the Company's Common Stock each year for each committee of the Board of Directors on which a director serves.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT ARRANGEMENTS

In July 1993, Gordon Campbell terminated his employment as President and Chief Executive Officer of the Company. In connection with his termination, Mr. Campbell and the Company agreed that, in exchange for the provision by Mr. Campbell of certain consulting services to the Company and a release of any claims against the Company, the Company would (1) pay Mr. Campbell $27,084 per month for one year; (2) extend his medical benefits for up to one year; (3) accelerate the vesting of 76,633 shares of Company stock under stock options previously granted Mr. Campbell; (4) extend vesting eligibility for 250,000 shares under a performance-based option; and (5) extend the exercise date of Mr. Campbell's vested stock options to August 31, 1994. The Board of Directors retained the right to terminate the foregoing agreement with Mr. Campbell in the event he did not perform the consulting services to which he agreed. In May 1994, the Board of Directors extended to August 31, 1995 the exercise date of 550,000 shares of Company stock under stock options previously granted Mr. Campbell, which included the options for 76,633 shares and 250,000 shares described above in (3) and (4), respectively.

CERTAIN TRANSACTIONS AND OTHER RELATIONSHIPS

In February 1989, the Company loaned $412,018.75 at an interest rate of 8% per annum to Marc E. Jones, a former executive officer of the Company. The due date for the loan, initially February 1990, was extended during the period of Mr. Jones' employment and, in connection with his termination in January 1993, the due date for the balance of the loan was extended to January 1994, the interest rate was changed to 5% per annum, and the exercise date of Mr. Jones' vested options was extended for a period of twelve (12) months following his termination date. Mr. Jones repaid the remaining balance in full, including accrued interest, in the amount of $253,076.92, and the note was retired as of April 17, 1994.

In August 1989, the Company loaned $74,937 at an interest rate of 9% per annum to Enzo N. Torresi, a former director of the Company, which he used to exercise a portion of his stock options. The due date for the balance of the loan was initially August 1990, but such due date was subsequently extended to August 1991, August 1992 and August 1993, respectively. In August 1992, the interest rate on the note was changed to 8.2% per annum. Mr. Torresi repaid the remaining balance in full, including accrued interest, in the amount of $28,600, and the note was retired in September 1993.

In connection with the relocation of Scott E. Cutler, an executive officer of the Company, the Company purchased a house in May 1991 and agreed to lease the house to Mr. Cutler. The lease currently extends through December 1994 at a monthly rental of $2,000, which the Board of Directors believes to be the fair market value. At the end of the lease, Mr. Cutler may elect to purchase the house from the Company at a price equal to the price paid by the Company plus the Company's incremental cost, less any rent paid by Mr. Cutler.

In connection with the relocation of Lee Barker, an executive officer of the Company, in September 1992, the Company provided relocation assistance and moving expenses to Mr. Barker in the amount of $16,793. The Company also agreed to provide Mr. Barker mortgage assistance in the amount of $1,500 per month from October 28, 1992 through October 27, 1993, $1,000 per month from October 28, 1993 through October 27, 1994, and $500 per month from October 28, 1994 through October 27, 1995, unless Mr. Barker's employment terminates earlier for cause or voluntarily. In October 1992, the Company loaned $30,000 to Mr. Barker at an interest rate of 8% per annum which was due on October 5, 1993. In November 1993, the Board of Directors extended the due date to September 1, 1994. Mr. Barker repaid the remaining balance in full, including accrued interest, in the amount of $34,682.73, and the note was retired as of August, 1994.

During 1993, several executive officers terminated their employment with the Company, specifically Gary P. Martin, Chief Financial Officer, in April 1993, Gordon A. Campbell, President and Chief Executive Officer, in July 1993, and Nancy S. Dusseau and Jeffrey A. Grammer in August 1993. In connection with these terminations, each officer entered into an agreement with the Company which provided that, in exchange for the provision by the former officer of certain consulting services to the Company and a release of any claims against the Company, the Company would pay certain benefits, including extending medical benefits for up to one year. The agreement with Mr. Martin provided that the Company would (1) pay Mr. Martin $13,917 per month for one year, reduced by any income earned by Mr. Martin through other employment; and (2) extend the exercise date of Mr. Martin's vested stock options to April 11, 1994. In September 1993, Mr. Martin accepted a position with another employer and the Company's monthly payments to him were reduced to $2,250 and ceased in April 1994. The agreements with Ms. Dusseau and Mr. Grammer provide that the Company would (1) pay Ms. Dusseau $11,667 per month and Mr. Grammer $12,167 per month, each for nine months; (2) accelerate the vesting of 54,588 and 22,271 shares of Company stock under stock options previously granted Ms. Dusseau and Mr. Grammer, respectively; and (3) extend the exercise date of their vested stock options to August 14, 1994. For the terms of the agreement with Mr. Campbell, see "Employment Contracts and Termination of Employment Arrangements."

In September 1993, the Company entered into an asset sale agreement (the "Agreement") with Techfarm, Inc. ("Techfarm"). Techfarm is a corporation whose principal shareholders are Gordon A. Campbell, the Company's former President and Chief Executive Officer, and two other former executive officers of the Company. Mr. Campbell is the Company's Chairman of the Board. Pursuant to the Agreement, Techfarm purchased certain of the Company's assets, including the Company's interest in its Russian joint venture, Summit Systems ("Summit"), the Company's ethernet and token ring technology, and the technology associated with the Company's development of future multimedia products. The Company received a license back to the ethernet and multimedia technology for future products and agreed that, for a period of five (5) years, it will not engage directly in any of the businesses conducted by the networking business or the Summit business as of the date of the Agreement. In connection with the purchase, Techfarm assumed certain of the Company's liabilities, including the liabilities associated with the termination of interests in Summit other than the Company's and the liabilities under any contracts assumed by Techfarm, including certain joint development contracts. In exchange for the foregoing assets, Techfarm paid the Company $100,000 in cash and delivered a promissory note for $1,615,000. The note bears interest at 10% per annum and the principal and any accrued interest are payable in four installments, one every six months. The first installment was paid March 31, 1994. The note is secured by the stock of the Techfarm subsidiary which now operates Summit and by certain other of the acquired assets. The Agreement, which was entered into after the Company's decision to discontinue these businesses, was unanimously approved by the disinterested members of the Company's Board of Directors, after consideration of all

available options. Mr. Campbell abstained from the vote. In March 1994, the Company and Techfarm entered into the following agreements: (i) a loan and security agreement among the Company, Techfarm, Chips & Technologies J.V. Cyprus Limited ("Chips Cyprus") and Summit; (ii) a secured continuing guarantee between Techfarm and the Company; and (iii) a secured promissory note from Chips Cyprus and Summit in favor of the Company. Pursuant to these agreements, Chips Cyprus and Summit became the principal obligors on the promissory note to the Company, with Techfarm as guarantor, and all security intact. The terms of the new note are substantially the same as those of the note originally delivered to the Company by Techfarm.

In August 1994, the Company loaned $100,000 at an interest rate of 7% per annum to Keith Angelo, an executive officer of the Company. The outstanding balance of the loan will be forgiven at a rate of 25% per year as Mr. Angelo continues his employment with the Company. If he voluntarily leaves his employment with the Company or if Mr. Angelo's employment is terminated for cause before August 1, 1998, the outstanding balance must be repaid in full at that time.

In August 1994, the Company entered into an independent contractor agreement (the "Contractor Agreement") with Jarrat Global Enterprises, Inc. ("JGE"), a corporation whose principal shareholder is Henri A. Jarrat, a director of the Company. Pursuant to the Contractor Agreement, JGE will receive $8,000 per month, plus stock options in an amount to be determined by the Company's Board of Directors, as compensation for Mr. Jarrat providing the Company with requested business advice, including management consulting in specific areas, until November 1996, unless terminated earlier by either party.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and persons who beneficially own more than 10% of the Company's Common Stock to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission ("SEC"). Such persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms filed by such persons.

Based solely on the Company's review of such forms furnished to the Company and written representations from certain reporting persons, the Company believes that all filing requirements applicable to the Company's executive officers, directors and more than 10% stockholders were complied with during the fiscal year ended June 30, 1994.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee during fiscal 1994 was composed of two independent, non-employee directors of the Company, Gene P. Carter and Enzo N. Torresi who, upon his resignation from the Board, was replaced by Bernard V. Vonderschmitt. See "REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION."

On August 11, 1994, the Board of Directors amended and restated the Option Plan, which will otherwise expire on January 11, 1995, and renamed the Option Plan the "Amended and Restated Chips and Technologies, Inc. 1994 Stock Option Plan" (the "1994 Option Plan"), subject to approval by the Company's stockholders. The 1994 Option Plan is an amended and restated version of the Option Plan and will have a ten-year term extending from the date of its approval by the Board, if approved by the stockholders. The 1994 Option Plan is designed to comply with (i) the Securities and Exchange Commission's Rule 16b-3 (exempting certain transactions by corporate insiders from Section 16 "short-swing" profit liability), and (ii) recent changes to Internal Revenue Code Section 162(m). The 1994 Option Plan gives the Board broad discretionary authority in administering the 1994 Option Plan and in granting options. See "PROPOSAL TWO - APPROVAL OF AMENDMENT TO AMENDED AND RESTATED CHIPS AND TECHNOLOGIES, INC. 1985 STOCK OPTION PLAN" for a discussion of the proposed

amendments to the various features of the Option Plan. The following table sets forth grants of stock options received under the Option Plan, as amended, during the fiscal year ended June 30, 1994 by (i) the two individuals who served as Chief Executive Officer of the Company during fiscal 1994, and the five other most highly compensated executive officers of the Company as of June 30, 1994; (ii) all current executive officers as a group; (iii) all current directors who are not executive officers as a group; (iv) all employees, including all officers who are not executive officers, as a group. Grants under the 1994 Option Plan are to be made at the discretion of the Board of Directors. Accordingly, future grants under the 1994 Option Plan are not yet determinable.

NEW PLAN BENEFITS

Chips and Technologies Inc. Amended and Restated 1985 Stock Option Plan(1)

Name and Position	Exercise Price(2) (per share)	Number of Shares
Gordon A. Campbell(3)	$ 6.05	100,000
Chairman of the Board	$ 4.00	20,000
	$ 5.75	5,000
James E. Stafford	$ 4.00	125,000
President, Chief Executive Officer and Acting Chief Financial Officer		
Keith Angelo	$ 4.625	50,000
Vice President, Marketing		
Richard E. Christopher	$ 4.625	35,000
Vice President, Sales		
Scott E. Cutler	$ 4.625	20,000
Vice President, Software Technology		

Morris E. Jones, Jr. Senior Vice President, Advanced Products and Chief Technical Officer	$ 4.625	35,000
Lawrence A. Roffelsen Vice President, Engineering	$ 4.625	50,000
Executive Officer Group (8 persons)	$4.00 - $6.25	490,000
Non-Executive Director Group (3 persons)	$ 3.875	100,000
Non-Executive Officer Employee Group (177 persons)	$3.875 - $6.25	983,600

1 Employees, directors and individuals who are rendering services as consultants, advisors, or other independent contractors to the Company are eligible to participate in the Option Plan.

2 Future exercise prices of options are unknown, as they are based upon fair market value at the date of grant.

3 Mr. Campbell resigned as the Company's President and Chief Executive Officer in July 1993, but remains Chairman of the Board.

REPORT OF THE COMPENSATION COMMITTEE ON THE EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE

The Compensation Committee is composed of two independent, non-employee directors of the Company, neither of whom are former employees of the Company. During fiscal 1994, the Committee members were Gene P. Carter, Enzo N. Torresi, until September 1993, and Bernard V. Vonderschmitt for the balance of the year. The Committee is responsible for setting and administering the policies governing the annual compensation of the Company's executive officers, including cash compensation and stock option programs.

COMPENSATION PHILOSOPHY

The Compensation Committee strives to align executive compensation with the value achieved by the executive team for the Company's stockholders. Toward that goal, the Company's compensation program emphasizes both short and long-term incentives designed to attract, motivate, and retain highly qualified executives who will effectively manage the Company and maximize stockholder value. The Company uses salary, executive officer bonuses and stock options to motivate executive officers to achieve the Company's business objectives and to align the incentives of officers with the long-term interests of stockholders. The Committee reviews and evaluates each executive officer's base and variable compensation annually relative to corporate performance and comparative market information.

In setting total compensation, the Committee considers individual and Company performance, as well as market information in the form of published survey data provided to the Committee by the Company's human resources staff. The market data consists primarily of base salary and total cash compensation rates, as well as incentive bonus and stock programs, of companies considered by the Committee to be comparable companies in the semiconductor industry. The Committee's policy is to generally target levels of cash and equity compensation paid to its executive officers at approximately five percent above the average of such compensation paid by comparable companies in the semiconductor industry.

The Company has considered the potential impact of Section 162(m) ("Section 162(m)") of the Internal Revenue Code adopted under the federal Revenue Reconciliation Act of 1993. Section 162(m) disallows a tax deduction for any publicly-held corporation for individual compensation exceeding $1 million in any taxable year for any of the named executive officers, unless compensation is performance-based. Since the targeted cash compensation of each of the named executive officers is well below the $1 million threshold and the Company believes that any options granted under the Option Plan will meet the requirement of being performance-based in accordance with the regulations under Section 162(m), the Committee believes that Section 162(m) will not reduce the

tax deduction available to the Company. The Company's policy is to qualify to the extent reasonable its executive officers' compensation for deductibility under applicable tax laws.

FORMS OF COMPENSATION

Specific executive compensation elements and the factors on which they were based are:

BASE SALARY. The Committee reviews the performance and sets the salary of all executive officers on an annual basis. In making its decisions, the Committee considers the evaluations and recommendations of the Chief Executive Officer as to the performance, attainment of goals and objectives, contribution to the Company and salary of each of the Company's other officers. In making its decision regarding the Chief Executive Officer's compensation, the Committee reviews the Chief Executive Officer's performance and sets his salary independently, after considering his performance, contribution to the Company and the salary levels for chief executive officers at comparable companies.

* BONUS. The Company seeks to provide short term incentives through bonuses to executives who make contributions of outstanding value to the Company. The Company has in the past awarded bonuses which comprised a substantial portion of total compensation; however, the Company and the Committee decided it was generally not appropriate to pay bonuses unless the Company achieved profits from operations or attained specific performance targets. For that reason the Company did not award bonuses to executive officers in fiscal 1994.

* LONG-TERM INCENTIVES. Longer term incentives are provided through the Amended and Restated Chips and Technologies, Inc. 1985 Stock Option Plan (the "Option Plan") and the Company's Employee Stock Purchase Plan (the "Purchase Plan"). Both the Option Plan and the Purchase Plan reward executives through the growth in the value of the Company's stock. All of the Company's employees are eligible to participate in the Option Plan and the Purchase Plan. Stock options are granted upon hire and annually after performance reviews depending on individual performance and contribution.

At the commencement of an executive officer's employment, and periodically thereafter, the Chief Executive Officer recommends to the Committee an award of stock options under the Option Plan. The Committee grants stock options at the market price for the Company's Common Stock on the date of grant. Therefore, such grants will only have value if the Company's Common Stock price increases over the exercise price. The Committee believes that stock options serve to align the incentives of executive officers with the interests of stockholders because of the direct benefit executive officers receive through improved stock performance. Recommendations for the grant of options are based on relative position and responsibilities of each executive officer, their relative equity ownership and degree of vesting, and the historical and expected contributions of each executive officer to the Company. Generally, stock options vest over a period of four years in order to encourage executive officers to continue their employment with the Company.

FISCAL 1994 COMPENSATION

Compensation for the Chief Executive Officer and the other executive officers was set according to the Company's established compensation philosophy described above. The Committee's analysis of the Company's performance in fiscal 1994 focused on several factors, including the Company's overall profitability and operating results. The salaries in fiscal 1994 for Gordon A. Campbell and James F. Stafford, who both served as Chief Executive Officer for portions of fiscal 1994, and the salaries for the other executive officers, were substantially the same as in fiscal 1993. As noted above, no bonuses were awarded in fiscal 1994.

During fiscal 1994, the Committee decided that, in order to retain the key employees and executive officers who remained after the significant restructurings and management reorganization, who the Committee believed were critical to the long term success of the Company, it was necessary to grant additional stock options to such employees. After review of the recommendations by management, the Committee approved the grants, with certain adjustments for a total of 1,573,600 shares, including 440,000 shares granted to the named executive officers. The stock options granted to executive officers, including James F. Stafford, Chief Executive Officer, were based upon rankings of each officer's performance and his or her expected importance to the long term success of the Company. James F. Stafford received an option to purchase 125,000

shares, subject to the foregoing terms. The number of shares was based on Mr. Stafford's position, relatively modest equity position in the Company, and his expected contribution in fiscal 1995 and beyond. All other option grants become fully vested if the employee remains with the Company for four years from the date of grant.

THE COMPENSATION COMMITTEE
GENE P. CARTER
BERNARD V. VONDERSCHMITT

COMPARISON OF STOCKHOLDER RETURN

Set forth below is a line graph comparing the annual percentage change in the cumulative total return on the Company's Common Stock with the cumulative total return of the H&Q Technology Index and the NASDAQ Stock Market - U.S. Index for the period commencing on June 30, 1989, and ending on June 30, 1994.

COMPARISON OF CUMULATIVE TOTAL RETURN FROM JUNE 30, 1989, THROUGH JUNE 30, 19941

CHIPS AND TECHNOLOGIES, INC.

[The following descriptive data is supplied in accordance with Rule 304(d)(2) of Regulation ST]

	Chips and Technologies, Inc.	NASDAQ-U.S.	H&Q Technology
June 30, 1989	100.00	100.00	100.00
June 30, 1990	90.00	108.00	115.00
June 30, 1991	32.00	114.00	115.00
June 30, 1992	30.00	137.00	131.00
June 30, 1993	16.00	172.00	160.00
June 30, 1994	16.00	173.00	162.00

1 Assumes that $100.00 was invested on June 30, 1989, in the Company's Common Stock at the price of $23.50 per share and at the closing sales price for each index on that date and that all dividends were reinvested. No cash dividends have been declared on the Company's Common Stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

PROPOSAL TWO

AMENDED AND RESTATED CHIPS AND TECHNOLOGIES, INC. 1985 STOCK OPTION PLAN

The Company established the Option Plan in January 1985. The purpose of the Option Plan is to encourage stock ownership by employees, directors and consultants of the Company or any parent or subsidiary corporation of the Company, to give them a greater personal interest in the success of the business and to provide added incentive to continue and advance in their employment or service to the Company. On January 8, 1987, the Board of Directors amended and restated the Option Plan to conform to certain changes in governing law effected by the Tax Reform Act of 1986. On August 11, 1994, the Board of Directors amended and restated the Option Plan, extended its term and renamed the Option Plan the "Amended and Restated Chips and Technologies, Inc. 1994 Stock Option Plan." Amendments were made to the Option Plan including those described below, subject to approval by the Company's stockholders. Since the inception of the Option Plan, 17,200,000 shares of Common Stock have been reserved for issuance under the Option Plan. Of the total number of shares reserved, as of June 30, 1994, 4,840,422 shares of Common Stock were reserved for issuance upon the exercise of outstanding options at a weighted average exercise price of $4.75 per share with exercise prices ranging from $3.125 to $9.75, and 1,885,673 shares of Common Stock remained available for future option grants. See "BOARD OF DIRECTORS -- Executive Compensation" for additional information regarding grants and exercises of options under the Option Plan.

PROPOSED AMENDMENTS TO THE OPTION PLAN

The proposed amendments provide that all options must be granted, if at all, by August 11, 2004. The Option Plan would otherwise expire on January 11, 1995.

The Revenue Reconciliation Act of 1993 added Section 162(m) to the Internal Revenue Code of 1986, as amended (the "Code"). Under Section 162(m), the allowable deduction for compensation paid or accrued with respect to the chief executive officer and each of the four most highly compensated executive officers of a publicly-held corporation is limited to no more than $1,000,000 per year for fiscal years beginning on or after January 1, 1994. To enable the Company to preserve the benefit of receiving a tax deduction for the full amount of income recognized by the Company's executive officers upon exercise of stock options, the Board of Directors adopted an amendment to the Option Plan, subject to stockholder approval, to impose a per-optionee share limitation of 500,000 shares per fiscal year, although Company grants typically do not approach these limits. However, because the change in the Code is only recently enacted and subject to clarification by the Internal Revenue Service, there can be no assurance that the Company will be able to continue to deduct all compensation paid to its employees.

In order for the Company to be able to obtain the advantages of using pooling accounting in the event of a Transfer of Control (as defined in the Option Plan), the Board of Directors also adopted an amendment to the Option Plan, subject to stockholder approval, to provide that in the event of a Transfer of Control the unexercisable and/or unvested portion of all outstanding options will become immediately exercisable and vested as of a date 30 days prior to the Transfer of Control, unless the acquiring company either assumes the options granted under the Option Plan or else substitutes its own options for the Option Plan options. Any options which are neither assumed or substituted for by the acquiring company nor exercised as of the date of the Transfer of Control will terminate effective as of the date of the Transfer of Control.

To aid the Company's recruiting efforts, the Board of Directors also adopted an amendment to the Option Plan, subject to stockholder approval, to expand the eligibility provisions of the Option Plan to permit nonqualified stock options to be granted to prospective employees, consultants and advisors. (Incentive stock options may be granted only to actual employees.) This amendment will enable the Company to issue an offer letter to a prospective key employee stating that an option has been granted at a particular exercise price. Since vesting under the option is based on employment, the prospective employee must accept the employment offer and commence working for the Company to gain any vested interest in such option. At the same time, an amendment was adopted to permit the Board to provide that nonqualified stock options may be assigned

or transferred to third parties. Previously an option was exercisable only by the optionee, except in the event of death.

The Board of Directors believes that the approval of the amendments to the Option Plan is in the best interests of the Company and its stockholders, as the ability to grant stock options is an important factor in attracting, motivating and retaining qualified personnel essential to the success of the Company; and the ability to deduct as compensation expense the gain recognized by the Company's executive officers upon their exercise of options granted under the Option Plan is a factor affecting the profitability of the Company.

SUMMARY OF THE PROVISIONS OF THE OPTION PLAN

The following summary of the Option Plan, including the proposed amendments, is qualified in its entirety by the specific language of the Option Plan, a copy of which is available to any stockholder upon request.

The Option Plan is administered by the Board of Directors and/or a duly appointed committee of the Board of Directors which has discretion to determine optionees, the number of shares to be covered by each option, the vesting schedule and all other terms of the options. The maximum number of shares of the Common Stock of the Company which may be issued upon the exercise of options granted pursuant to the Option Plan is 17,200,000 shares (subject to adjustment in the event of stock dividends, stock splits, reverse stock splits, combinations, reclassifications, or like changes in the capital structure of the Company). Of that number, 4,840,422 shares of Common Stock remained reserved for issuance upon the exercise of outstanding options as of June 30, 1994, and 1,885,673 shares of Common Stock remained available for future option grants. No

optionee may be granted options to purchase in excess of 500,000 shares per fiscal year (such limit to be subject to adjustment in the event of stock dividends, stock splits, reverse stock splits, combinations, reclassifications, or like changes in the capital structure of the Company). Absent approval of the proposed amendments by the stockholders, there is no limit on the number of shares that may be granted to any one optionee per fiscal year. After stockholder approval of the proposed amendments, all options must be granted, if at all, by August 11, 2004.

The Option Plan provides for the grant of incentive stock options ("Incentive Stock Options") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") and nonqualified stock options. Stock options may be granted to employees, prospective employees, directors and consultants of the Company; provided, however, that Incentive Stock Options may be granted only to employees. A director who is not also an employee of the Company or any consultant may be granted only a nonqualified stock option. As of June 30, 1994, 188 employees and consultants were eligible to participate in the Option Plan.

All options granted under the Option Plan must have an exercise price not less than the fair market value of the Common Stock of the Company, as determined by the Board, on the date of grant. Any Incentive Stock Option granted to a person who at the time of the grant owns stock comprising more than 10% of the total voting power of all classes of stock of the Company must have an exercise price equal to at least 110% of the fair market value of the Common Stock of the Company, as determined by the Board on the date of grant.

Options granted under the Option Plan may be exercised by payment of the exercise price (1) in cash, by check or cash equivalent, (2) by tender to the Company of shares of the Company's Common Stock which (a) either have been owned by the optionee for more than six months or were not acquired, directly or indirectly from the Company, and (b) have a value not less than the exercise price, (3) by the optionee's recourse promissory note, if specifically permitted by the Board and set forth in the option agreement, (4) by the assignment of the proceeds of the sale of some or all of the shares being acquired upon the exercise of an option, (5) by such other consideration as the Board may allow, or (6) by any combination thereof. Incentive Stock Options granted under the Option Plan are exercisable for a period of ten years from the date of grant. At the discretion of the Board of Directors, nonqualified stock options granted under the Option Plan may have a term longer than ten years. After expiration, the shares subject to an unexercised option become available for future grants.

Unless otherwise provided by the Board of Directors, options are exercisable at any time after grant. Shares purchased upon exercise of an option are subject to the Company's right to repurchase the unvested portion of such shares at their original purchase price upon termination of the optionee's employment with the Company or the optionee's attempt to sell, exchange, transfer, pledge or otherwise dispose of the unvested shares. Shares so repurchased become available for future option grants. Unless otherwise determined by the Board of Directors, the number of shares subject to the Company's repurchase right decreases over a four-year period, commencing on the option grant date or the optionee's date of hire, as specified by the Board of Directors. Ordinarily, an option is exercisable, during the lifetime of the optionee, only by the optionee, and is not transferable or assignable by the optionee other than by will or the laws of descent and distribution; provided, however, that the Board may provide that Nonqualified Stock Options may be assigned or transferred to third parties.

In the event of a Transfer of Control (as defined in the Option Plan), the unexercisable and/or unvested portion of all outstanding options will become immediately exercisable and vested as of a date 30 days prior to the Transfer of Control, unless the acquiring company either assumes the options granted under the Option Plan or else substitutes its own options for the Option Plan options. Any options which are neither assumed or substituted for by the acquiring company nor exercised as of the date of the Transfer of Control will terminate effective as of the date of the Transfer of Control.

The Board of Directors may terminate or amend the Option Plan at any time; provided, however, that without the approval of the stockholders of the Company, the Board may not amend the Option Plan to increase the number of shares of Common Stock covered thereby, to change the class of persons eligible to receive Incentive Stock Options or to expand the class of persons eligible to receive nonqualified stock options.

SUMMARY OF THE FEDERAL INCOME TAX CONSEQUENCES OF THE OPTION PLAN

The following summary is intended only as a general guide as to the United States federal income tax consequences under current law with respect to participation in the Option Plan and does not attempt to describe all possible federal or other tax consequences of such participation. Furthermore, the tax consequences of options are complex and subject to change, and a taxpayer's particular situation may be such that some variation of the described rules is applicable.

Optionees should consult their own tax advisors prior to the exercise of any option and prior to the disposition of any shares of Common Stock acquired upon the exercise of an option.

INCENTIVE STOCK OPTIONS. Options designated as Incentive Stock Options are intended to fall within the provisions of Section 422 of the Code. An optionee recognizes no taxable income as the result of the grant or exercise of such an option.

For optionees who do not dispose of their shares for two years following the date the option was granted nor within one year following the transfer of the shares upon exercise of the option, the gain on sale of the shares (which is defined to be the difference between the sale price and the purchase price of the shares) will be taxed as long-term capital gain. If an optionee is entitled to a long-term capital gain treatment upon a sale of the stock, the Company will not be entitled to any deduction for federal income tax purposes. If an optionee disposes of shares within two years after the date of grant or within one year from the date of exercise (a "disqualifying disposition"), the difference between the option price and the fair market value of the shares on the date of exercise (not to exceed the gain realized on the sale if the disposition is a transaction with respect to which a loss, if sustained, would be recognized) will be taxed at ordinary income rates at the time of disposition. Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. A capital gain or loss will be long-term if the optionee's holding period is more than twelve months. Generally, any ordinary income recognized by the optionee upon the disposition of the stock would be deductible by the Company for federal income tax purposes.

The difference between the option price and the fair market value of the shares on the determination date of an Incentive Stock Option (which is generally the date of exercise) is an adjustment in computing the optionee's alternative minimum taxable income and may be subject to an alternative minimum tax which is paid if such tax exceeds the regular tax for the year. Special rules may apply with respect to certain subsequent sales of the shares in a disqualifying disposition, certain basis adjustments for purposes of computing the alternative minimum taxable income on a subsequent sale of the shares and certain tax credits which may arise with respect to optionees subject to the alternative minimum tax.

NONQUALIFIED STOCK OPTIONS. Nonqualified stock options have no special tax status. An optionee generally recognizes no taxable income as a result of the grant of such an option. Upon exercise of an option, the optionee normally recognizes ordinary income in the amount of the difference between the option price and the fair market value of the shares on the determination date (which is generally the date of exercise). If the optionee is an employee, such ordinary income generally is subject to withholding of income and employment taxes. The "determination date" is the date on which the option is exercised unless the shares are not vested and/or the sale of the shares at a profit would subject the optionee to suit under Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in which case the determination date is the later of (i) the date on which the shares vest, or (ii) the date the sale of the shares at a profit would no longer subject the optionee to suit under Section 16(b) of the Exchange Act. (Section 16(b) of the Exchange Act generally is applicable only to officers, directors and beneficial owners of more than 10% of the Common Stock of the Company.) If the determination date is after the exercise date, the optionee may elect, pursuant to Section 83(b) of the Code, to have the exercise date be the determination date by filing an election with the Internal Revenue Service not later than thirty days after the date the option is exercised. Upon the sale of stock acquired by the exercise of a nonqualified stock option, any gain or loss, based on the difference between the sale price and the fair market value on the date of recognition of income, will be taxed as capital gain or loss. A capital gain or loss will be long-term if the optionee's holding period is more than twelve months from the date of recognition of income. No tax deduction is available to the Company with respect to the grant of the option or the sale of the stock acquired pursuant to such grant.

Generally, the Company would be entitled to a deduction equal to the amount of ordinary income recognized by the optionee as a result of the exercise of the option.

VOTE REQUIRED AND BOARD OF DIRECTORS' RECOMMENDATION

The affirmative vote of a majority of the votes cast at the Annual Meeting of Stockholders, at which a quorum representing a majority of all outstanding shares of Common Stock of the Company is present and voting, either in person or by proxy, is required for approval of this proposal. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum. Abstentions will have the same effect as a negative vote. Broker non-votes, on the other hand, will have no effect on the outcome of the vote. The Company's management believes that in order to attract and retain additional key employees essential to the success of the Company, it is necessary to amend and restate the Option Plan. THEREFORE, THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THIS PROPOSAL TO AMEND AND RESTATE THE OPTION PLAN.

PROPOSAL THREE

RATIFICATION OF APPOINTMENT OF INDEPENDENT ACCOUNTANTS

The Board of Directors of the Company has selected Price Waterhouse LLP as independent accountants to audit the financial statements of the Company for the fiscal year ending June 30, 1995. Price Waterhouse LLP has acted in such capacity since its appointment during the fiscal year ended June 30, 1985. A representative of Price Waterhouse LLP is expected to be present at the Annual Meeting with the opportunity to make a statement if the representative desires to do so, and is expected to be available to respond to appropriate questions.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS RATIFY THE APPOINTMENT OF PRICE WATERHOUSE LLP AS THE COMPANY'S INDEPENDENT ACCOUNTANTS FOR THE FISCAL YEAR ENDING JUNE 30, 1995. If the appointment is not ratified, management will consider the appointment of other independent accountants. The affirmative vote of a majority of the votes cast at the Annual Meeting of Stockholders, at which a quorum representing a majority of all outstanding shares of Common Stock of the Company is present and voting, either in person or by proxy, is required for approval of this proposal. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum, but will not be counted as having been voted on the proposal.

STOCKHOLDERS' PROPOSALS TO BE PRESENTED AT NEXT ANNUAL MEETING

Proposals of stockholders intended to be presented at the next Annual Meeting of the stockholders of the Company must be received by the Company at its offices at 2950 Zanker Road, San Jose, California 95134, not later than June 2, 1995, and satisfy the conditions established by the Securities and Exchange Commission for stockholder proposals to be included in the Company's proxy statement for that meeting.

TRANSACTION OF OTHER BUSINESS

At the date of the Proxy Statement, the only business which the Board of Directors intends to present or knows that others will present at the meeting is as hereinabove set forth. If any other matter or matters are properly brought before the meeting, or any adjournment thereof, it is the intention of the persons named in the accompanying form of proxy to vote the proxy on such matters in accordance with their best judgment.

By Order of the Board of Directors

Jeffery Anne Tatum, Secretary

September 30, 1994

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