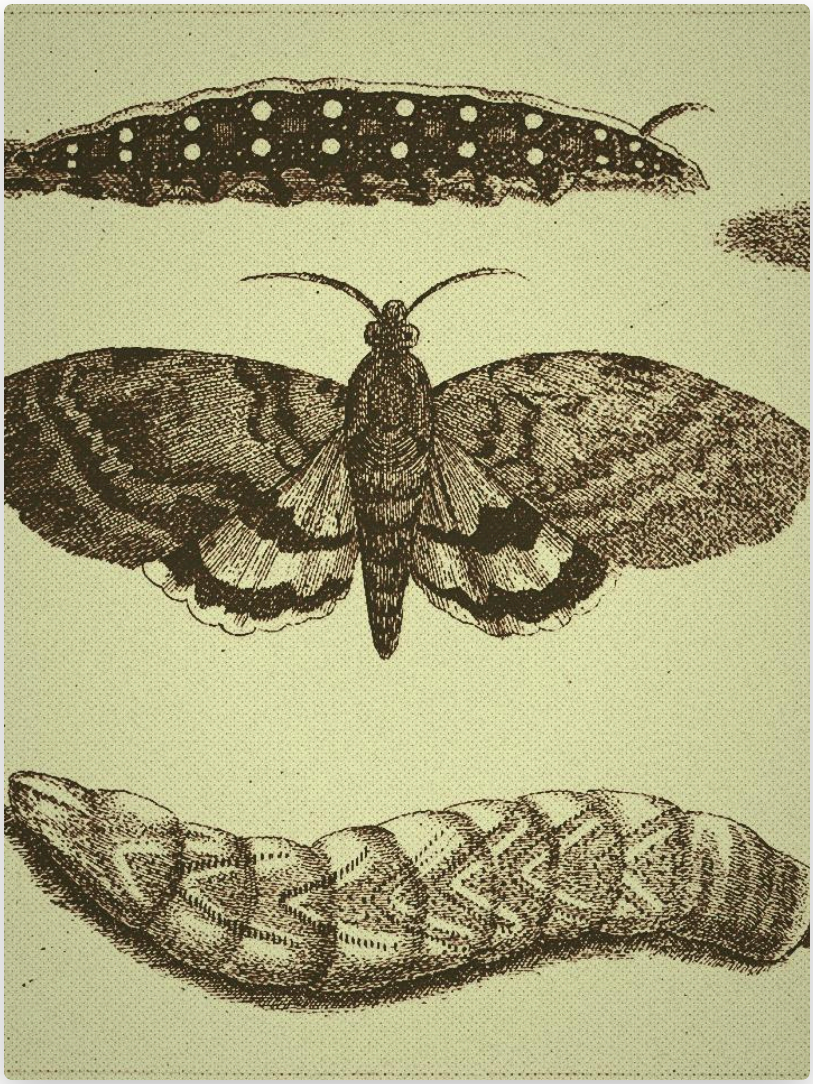
FORM S-1 · REGISTRATION STATEMENT

Transmeta Corp

IPO priced 2000-11-06 · $21.00 a share · TMTA



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 17, 2000

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

TRANSMETA CORPORATION (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	3674	77-0402448
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

3940 FREEDOM CIRCLE SANTA CLARA, CALIFORNIA 95054 (408) 919-3000 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) DAVID R. DITZEL, CHIEF EXECUTIVE OFFICER TRANSMETA CORPORATION 3940 FREEDOM CIRCLE SANTA CLARA, CALIFORNIA 95054 (408) 919-3000 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

LAIRD H. SIMONS III, ESQ. MARK A. LEAHY, ESQ. FENWICK & WEST LLP TWO PALO ALTO SQUARE PALO ALTO, CALIFORNIA 94306 (650) 494-0600	JEFFREY D. SAPER, ESQ. KAREN A. DEMPSEY, ESQ. WILSON SONSINI GOODRICH & ROSATI PROFESSIONAL CORPORATION 650 PAGE MILL ROAD PALO ALTO, CALIFORNIA 94304 (650) 493-9300	MERLE A. MCCLENDON CHIEF FINANCIAL OFFICER TRANSMETA CORPORATION 3940 FREEDOM CIRCLE SANTA CLARA, CALIFORNIA 95054 (408) 919-3000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX. [ ] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] _____ IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] _____ IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] _____ IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, PLEASE CHECK THE FOLLOWING BOX. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock, $0.00001 par value per share.....	$200,000,000	$52,800

(1) ESTIMATED SOLELY FOR THE PURPOSE OF COMPUTING THE AMOUNT OF THE REGISTRATION FEE PURSUANT TO RULE 457(O) UNDER THE SECURITIES ACT OF 1933.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS (SUBJECT TO COMPLETION) ISSUED AUGUST 17, 2000 SHARES

[LOGO]

COMMON STOCK

TRANSMETA CORPORATION IS OFFERING SHARES OF ITS COMMON STOCK. THIS IS OUR INITIAL PUBLIC OFFERING AND NO PUBLIC MARKET CURRENTLY EXISTS FOR OUR SHARES. WE ANTICIPATE THAT THE INITIAL PUBLIC OFFERING PRICE WILL BE BETWEEN $ AND $ PER SHARE.

WE HAVE APPLIED TO LIST OUR COMMON STOCK FOR QUOTATION ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "TMTA."

Investing in Our Common Stock Involves Risks. See "Risk Factors" Beginning on Page 7.

Price $ a Share

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS	PROCEEDS TO TRANSMETA
Per Share	$	$	$
Total	$	$	$

Transmeta has granted the underwriters the right to purchase up to an additional shares to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the shares to purchasers on , 2000.

MORGAN STANLEY DEAN WITTER DEUTSCHE BANC ALEX. BROWN SALOMON SMITH BARNEY BANC OF AMERICA SECURITIES LLC SG COWEN , 2000

[Artwork]

Description of Front Cover Artwork

Inside Front Cover Page:

- The Crusoe Logo is superimposed over a sky blue background covering the top two-thirds of the page.

- The words "We rethought the microprocessor... for a new world of mobility" are superimposed over a sandy beach background covering the bottom one third of the page.

Description of Gatefold Graphics:

- A sandy beach background.

- Centered across the top of the gatefold is the phrase "Transmeta Enables Mobile Internet Computing."

- On the left-hand side of the gatefold below the caption superimposed over the sky are a set of words and graphics arranged like an addition equation.

- The first part of the equation is the phrase "Code Morphing Software" followed by an addition sign.

- Centered below this phrase are the words:

- "Translates x86 Software into VLIW Software" - "Optimizes for Longer Battery Life" - "Optimizes for Higher Performance" - The second part of the equation is the phrase "VLIW Processor" above a graphic of the Crusoe Microprocessor.

- Centered below the Crusoe Microprocessor are the words:

- "128-bit VLIW Instructions" - "Simple and Fast" - "Fewer Transistors" - The text "Crusoe is the sum of" is centered above the two parts of the equation.

- The equation is followed by an equal sign and a set of overlapping vertical rings.

- The words "Low Power," "x86 Compatibility" and "PC Performance" are centered in each of the three rings.

- On the top right of the gatefold are a pair of icons, one of a notebook computer and one of an Internet appliance. On the bottom right of the gatefold are two columns of text.

- Under the first column are the words:

- "Technologies for Mobile Computing" in bold header text - "Crusoe Software-based Microprocessor" - "LongRun Power Management" - "Mobile Linux" - "PC System Design Expertise" - Under the second column are the words:

- "Benefits for Mobile Computers" in bold header text - "Longer Battery Life" - "x86 Software Compatible" (Windows, Linux, Internet Applications) - "High Performance" - "Lighter Weight" - "Cool and Quiet" - "Cost-Effective" - "Software Upgradeable"

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock. Unless otherwise indicated, all information in this prospectus:

- assumes that the underwriters do not exercise their over-allotment option; and - gives effect to our reincorporation in Delaware before the completion of this offering.

UNTIL , 2000 (25 DAYS AFTER THE COMMENCEMENT OF THIS OFFERING), ALL DEALERS THAT BUY, SELL OR TRADE OUR COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

For investors outside the United States: Neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

Prospectus Summary

You should read the following summary together with the entire prospectus, including the more detailed information in our consolidated financial statements and related notes appearing elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in "Risk Factors."

Transmeta develops and sells hardware and software technologies for Mobile Internet Computers, which are portable computing and communication devices designed to provide an Internet experience comparable to that traditionally provided by a desktop personal computer, or PC. Our Crusoe family of microprocessors is targeted at the notebook and Internet appliance segments of the Mobile Internet Computer market, and we provide Crusoe microprocessors to suit both existing and emerging products within these market segments. We believe that our microprocessors are also well suited for other developing markets requiring low power consumption, including set-top boxes and residential gateways.

As people are becoming increasingly mobile, they are dependent on use of the Internet from remote locations to conduct their business and personal lives. In addition, the emergence of high-speed wired and wireless Internet access is enabling a new generation of notebook and Internet appliance products that offer significant improvements in portability and provide users with a full-featured Internet experience. International Data Corporation, or IDC, estimates that the market for notebook computers will grow to 35 million units in 2003, while the market for Internet appliances and similar devices that access the Internet is expected to grow to more than 75 million units in the same time frame.

Rather than using the traditional method of designing microprocessors primarily with hardware, we have developed a unique approach that incorporates a substantial portion of microprocessor functionality into our software. We believe that our approach to designing microprocessors allows us to provide the first microprocessor solution that simultaneously satisfies a wide range of user requirements for Mobile Internet Computers, including x86 software compatibility, long battery life and performance comparable to the desktop PC.

The primary components of our Crusoe microprocessors are as follows:

CODE MORPHING SOFTWARE. Our Code Morphing software provides a compatibility bridge between x86 software and our own proprietary instruction set, using a translation process that is indiscernible to the end user. In addition, Code Morphing Software continuously learns about and re-optimizes software applications a user is running to improve power usage and performance.

VERY LONG INSTRUCTION WORD (VLIW) PROCESSOR HARDWARE. Our VLIW processor hardware provides for parallel processing of instructions to achieve high performance. Because we use Code Morphing software to perform much of the functionality typically found in hardware, our microprocessors use a relatively simple hardware design that is optimized for low power consumption in addition to speed.

We are focused on extending our leadership in software-based microprocessor technologies and expanding the number of products and end markets that use Crusoe microprocessors. We have assembled a team of engineers with comprehensive systems expertise to help these manufacturers quickly resolve any system design issues and achieve rapid time-to-market for next generation products built with our Crusoe microprocessors. In addition, we have established, and intend to continue to establish, relationships with computer manufacturers to design and develop next generation Mobile Internet Computers.

We have a history of substantial losses, and at June 30, 2000, we had an accumulated deficit of approximately $119.4 million.

We were incorporated in California in March 1995. We intend to reincorporate in Delaware prior to this offering. Our principal executive offices are located at 3940 Freedom Circle, Santa Clara, California 95054, and our telephone number at that address is (408) 919-3000.

Transmeta(TM), the Transmeta logo, Crusoe(TM), the Crusoe logo, Code Morphing(TM) and LongRun(TM) are trademarks of Transmeta Corporation in the United States and other countries. All other trademarks or trade names appearing in this prospectus are the property of their respective owners.

The Offering

Common stock offered by Transmeta..... shares Common stock to be outstanding after this offering..... shares Use of proceeds..... We intend to use the net proceeds from this offering for working capital and other general corporate purposes. See "Use of Proceeds."

Proposed Nasdaq National Market symbol..... TMTA The number of shares of our common stock to be outstanding immediately after this offering is based on the number of shares outstanding on June 30, 2000 and assumes the conversion of our outstanding shares of preferred stock into 36,587,171 shares of common stock and the conversion of a convertible promissory note into 600,000 shares of common stock upon the closing of this offering.

The number of shares of our common stock that will be outstanding immediately after this offering excludes:

- 6,203,824 shares of common stock issuable upon exercise of options outstanding at June 30, 2000 with a weighted average exercise price of $5.05 per share;

- 1,073,216 shares of common stock issuable upon exercise of warrants outstanding at June 30, 2000 with a weighted average exercise price of $2.27 per share and;

- 5,597,644 additional shares available for issuance under our stock purchase and option plans.

Summary Consolidated Financial Data

The following tables provides summary consolidated financial data and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this prospectus. The pro forma information in the tables below reflects the conversion of our outstanding preferred stock into 36,587,171 shares of common stock and the conversion of a convertible promissory note into 600,000 shares of common stock upon the closing of this offering. The pro forma as adjusted column of consolidated balance sheet data also reflects the sale of shares of common stock offered by us at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. The financial results as of June 30, 2000 and for the six months ended June 30, 1999 and 2000 are unaudited.

	PERIOD FROM INCORPORATION (MARCH 3, 1995) THROUGH DECEMBER 31,	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1995	1996	1997	1998	1999	1999	2000
			(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:							
Product revenue	$ 250	$ --	$ --	$ 326	$ 76	$ 74	$ 358
License revenue	--	--	1,400	28,000	5,000	5,000	--
Total revenue	250	--	1,400	28,326	5,076	5,074	358
Gross profit	250	--	1,400	28,255	5,058	5,058	135
Total operating expenses	1,295	7,640	17,412	36,083	46,151	21,948	45,597
Operating loss	(1,045)	(7,640)	(16,012)	(7,828)	(41,093)	(16,890)	(45,462)
Net loss	(1,009)	(7,471)	(16,187)	(10,090)	(41,089)	(17,884)	(43,393)
Net loss per share							
Basic and diluted	$ (.10)	$ (.75)	$ (1.57)	$ (.87)	$ (3.02)	$ (1.37)	$ (2.81)
Weighted average shares outstanding							
Basic and diluted	10,000	10,000	10,288	11,537	13,618	13,048	15,419
Pro forma net loss per share							
Basic and diluted (unaudited)					$ (1.03)	$ (.88)	
Pro forma weighted average shares outstanding Basic and diluted							

(unaudited).....	39,782	49,227

JUNE 30, 2000 PRO FORMA ACTUAL AS ADJUSTED (IN THOUSANDS)

CONSOLIDATED BALANCE SHEET DATA:		
Cash and cash equivalents.....	$112,353	
Working capital.....	106,065	
Total assets.....	157,970	
Long-term obligations, net of current portion.....	26,307	
Total stockholders' equity.....	115,420	

Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as other information contained in this prospectus, before deciding to invest in shares of our common stock. If any of the following risks actually occurs, our business, financial condition and results of operations would suffer. In this case, the trading price of our common stock could decline and you might lose all or part of your investment in our common stock.

Risks Related to Our Business and Industry

WE HAVE A HISTORY OF LOSSES, EXPECT TO INCUR FURTHER SIGNIFICANT LOSSES AND MAY NEVER ACHIEVE OR MAINTAIN PROFITABILITY.

We have a history of substantial losses, expect to incur further significant losses, and do not expect to achieve profitability in the near future. We incurred net losses of $10.1 million in 1998, $41.1 million in 1999 and $43.4 million in the first half of 2000. As of June 30, 2000, we had an accumulated deficit of approximately $119.4 million. We intend to significantly increase our product development, sales and marketing, and administrative expenses. We also expect to incur substantial non-cash charges relating to the amortization of deferred compensation, which will serve to increase our net losses further. We cannot assure you that our revenue will grow and we may never achieve or maintain profitability. Even if we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or an annual basis.

OUR BUSINESS IS DIFFICULT TO EVALUATE BECAUSE WE RECOGNIZED OUR FIRST PRODUCT REVENUE IN THE FIRST HALF OF 2000.

We introduced our first Crusoe microprocessors in January 2000 and recognized our first product revenue from these products in the first half of 2000. We have manufactured limited quantities of our products to date, but have not shipped any products in volume. Thus, we have only a very limited operating history with all of our products. This limited history makes it difficult to evaluate our business. We derived substantially all of our revenue for 1997, 1998 and 1999 from license fees, but do not expect any license fee revenue in the foreseeable future. As a result, we need to generate substantial future revenue from product sales, but our ability to manufacture our products in production quantities and the revenue and income potential of our products and business are unproven. You should consider

our chances of financial and operational success in light of the risks, uncertainties, expenses, delays and difficulties associated with new businesses in highly competitive technology fields, many of which may be beyond our control. If we fail to address these risks, uncertainties, expenses, delays and difficulties, the value of your investment would decline.

We Depend on Increasing Demand for Our Crusoe Microprocessors.

We expect to derive virtually all of our revenue from the sale of our Crusoe microprocessors for the foreseeable future. We have not shipped any of these products in volume. Therefore, our future operating results will depend on the demand for Crusoe by future customers. If Crusoe is not widely accepted by the market due to performance, price, compatibility or for any other reason, or if, following acceptance, we fail to enhance Crusoe in a timely manner, demand for our products may fail to increase. If demand for our Crusoe products does not increase, our revenue will not increase.

IF WE FAIL TO PENETRATE THE NOTEBOOK COMPUTER MARKET, OUR OPERATING RESULTS WOULD BE IMPAIRED.

Our success depends upon our ability to sell our Crusoe microprocessors in volume to makers of notebook computers. Due to our software-based approach to microprocessor design, we have been required, and expect to continue to be required, to devote substantial resources to educate prospective customers in the notebook computer market about the benefits of our Crusoe products and to assist potential customers with their designs. In addition, most notebook computer companies have made significant investments in designing their systems for other microprocessor technology and might incur significant costs if they were to switch to our products. Our target customers may not choose our products for technical, cost or other reasons. If our Crusoe products fail to achieve widespread acceptance in the notebook computer market, our substantial marketing and development expenditures may not be offset by increased revenue.

IF THE INTERNET APPLIANCE MARKET FAILS TO GROW AS WE ANTICIPATE OR IF WE FAIL TO MEET THE NEEDS OF THIS MARKET, OUR GROWTH WOULD BE IMPAIRED.

The growth of our business depends in part on the increased acceptance and use of Internet appliances. We depend on the ability of our target customers to develop new products and enhance existing products for the Internet appliance market that incorporate our products and to introduce and promote these products successfully. The market for Internet appliances depends in part upon the deployment of wireless technologies that enable the delivery of Internet content at a speed comparable to that of a desktop computer. The wireless technologies currently under development might not fully address the needs of mobile Internet users. If the use of Internet appliances does not grow as we anticipate, or our targeted customers do not incorporate our products into theirs, our operating results would be materially adversely affected. In addition, the market for Internet appliances is new and evolving. Internet appliance manufacturers are likely to have varying requirements. To meet the

requirements of different Internet appliance manufacturers, we may be required to change our product design or features, sales methods or pricing policies. The costs of addressing these requirements could be substantial and could harm our operating results.

OUR OPERATING RESULTS ARE DIFFICULT TO PREDICT IN ADVANCE AND MAY FLUCTUATE SIGNIFICANTLY, AND A FAILURE TO MEET THE EXPECTATIONS OF SECURITIES ANALYSTS OR INVESTORS WOULD LIKELY RESULT IN A SUBSTANTIAL DECLINE IN OUR STOCK PRICE.

There is little historical financial information that is useful in evaluating our business, prospects and future operating results. You should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance. We expect our future operating results to fluctuate significantly from quarter to quarter. If our operating results fail to meet or exceed the expectations of securities analysts or investors, our stock price would likely decline substantially. Factors that are likely to cause our results to fluctuate include the following:

- the gain or loss of significant customers or significant changes in purchasing volume;

- the amount and timing of our operating expenses and capital expenditures;

- changes in the volume of our product sales and pricing concessions on volume sales;

- fluctuations in manufacturing yields;

- cancellations, changes or delays of deliveries to us by our manufacturer;

- the timing, rescheduling or cancellation of customer orders;

- the varying length of our sales cycles;

- the availability and pricing of competing products and technologies and the resulting effect on sales and pricing of our products;

- our ability to specify, develop, complete, introduce and market new products and technologies and bring them to volume production in a timely manner;

- fluctuations in the cost and availability of raw materials, such as wafers, chip packages and chip capacitors;

- the cost and availability of manufacturing, assembly and test capacity;

- fluctuations in the cost and availability of components, such as dynamic random access memory, or DRAM, that our customers require to build systems that incorporate our products;

- the rate of adoption and acceptance of new industry standards in our target markets;

- seasonality in some of our target markets; 8 - the effectiveness of our product cost reduction efforts and those of our suppliers;

- problems or delays due to shifting our products to smaller geometry process technologies and designing our products to achieve higher levels of design integration;

- changes in the mix of products we sell;

- changes in demand by the end users of our customers' products;

- variability of our customers' product life cycles; and - changes in the average selling prices of our microprocessors or the products that incorporate them.

Because a large portion of our expenses, including rent, salaries and capital leases, is fixed and difficult to reduce, if our revenue does not meet our expectations, the adverse effect of the revenue shortfall will be magnified by the fixed nature of our expenses.

COMPETITION IN THE SEMICONDUCTOR MARKET IS INTENSE; MANY OF OUR COMPETITORS AND POTENTIAL COMPETITORS ARE MUCH LARGER THAN WE ARE AND HAVE SIGNIFICANTLY GREATER RESOURCES; WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY.

The market for microprocessors is intensely competitive, rapidly evolving and subject to rapid technological change. We believe that competition will become more intense in the future and may cause price reductions, reduced gross margins and loss of market share, any one of which could significantly reduce our future revenue or any income. Significant competitors that offer microprocessors for the notebook computer market include Advanced Micro Devices and Intel. Significant competitors that offer microprocessors for the Internet appliance market include manufacturers of RISC microprocessors such as licensees of ARM technology and licensees of MIPS technology. In addition, we face competition from providers of x86 compatible microprocessors for the Internet appliance market, including National Semiconductor.

Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, product development and marketing resources, greater name recognition and significantly larger customer bases than we do. Our competitors may be able to develop products comparable or superior to those we offer, adapt more quickly than we do to new technologies, evolving industry trends and customer requirements, and devote greater resources to the development, promotion and sale of their products than we can. Many of our competitors also have well-established relationships with our existing and prospective customers and suppliers. In addition, many of our competitors, either alone or with other companies, have significant influence in our target markets. Negotiating and maintaining favorable customer and strategic relationships are and will continue to be critical to our business. If our competitors negotiate strategic relationships on more favorable terms than we are able to negotiate, or if they structure relationships that impair our ability to form strategic relationships, our competitive position and our business would be substantially damaged.

Furthermore, a number of these competitors may merge or form strategic relationships that would enable them to offer, or bring to market earlier, products that are superior to ours in terms of features, quality, pricing or other factors. We expect additional competition from other established and emerging companies. We may not be able to compete effectively against current and potential competitors, especially those with significantly greater resources and market leverage.

OUR PRODUCTS MAY HAVE DEFECTS, WHICH COULD HARM OUR REPUTATION, DECREASE MARKET ACCEPTANCE OF OUR PRODUCTS, CAUSE US TO LOSE CUSTOMERS AND REVENUE, AND RESULT IN LIABILITY TO US.

Highly complex products such as our microprocessors may contain either hardware or software defects or bugs. Often, these defects and bugs are not detected until after the products have been shipped. If any of our products contains defects, or has reliability, quality or compatibility problems, our reputation might be damaged significantly and customers might be reluctant to buy our products, which could harm our ability to retain or attract customers. In addition, these defects could interrupt or delay sales. We may have to invest significant capital and other resources to correct these problems. If any of these problems are not found until 9 after we have commenced commercial production of a new product, we might incur substantial additional development costs. If we fail to provide solutions to the problems, such as software upgrades or patches, we could also incur product recall, repair or replacement costs. These problems might also result in claims against us by our customers or others. In addition, these problems may divert our technical and other resources from other development efforts. Moreover, we would likely lose, or experience a delay in, market acceptance of the affected product or products, and we could lose credibility with our current and prospective customers. This is particularly significant as we are a new entrant to a market dominated by large well-established companies.

WE EXPECT TO DERIVE A SUBSTANTIAL PORTION OF OUR REVENUE FROM A SMALL NUMBER OF CUSTOMERS, AND OUR REVENUE WOULD DECLINE SIGNIFICANTLY IF ANY MAJOR CUSTOMER CANCELS, REDUCES OR DELAYS A PURCHASE OF OUR PRODUCTS.

We expect that a small number of OEM customers and distributors will account for a significant portion of our revenue. As a result, our future success will depend upon the timing and size of future purchase orders, if any, from these customers and, in particular:

- the success of these customers in marketing products that incorporate our products;

- the product requirements of these customers; and - the financial and operational success of these customers.

We expect that our distributor agreements will be nonexclusive and will not contain minimum purchase commitments. Should any distributor fail to emphasize sales of our products, choose to emphasize alternative products or promote products of our competitors, our revenue and results of operations would be harmed. We expect that our sales to OEM customers will be made on the basis of purchase orders rather than long-term commitments. In addition, customers can delay, modify or cancel orders without penalty. Many of our customers are significantly larger than we are and have sufficient bargaining power to demand lower prices and better terms. The loss of any one of our future major customers, or the delay of significant orders from these customers, could reduce or delay our recognition of product revenue and harm our reputation in the industry.

IF WE FAIL TO ESTABLISH AND MAINTAIN RELATIONSHIPS WITH KEY PARTICIPANTS IN OUR TARGET MARKETS, WE MAY HAVE DIFFICULTY SELLING OUR PRODUCTS.

In addition to our customers, we will need to establish and maintain relationships with companies that develop technologies that work in conjunction with our microprocessors. These technologies include operating systems, BIOS software, graphics chips, DRAMs and other hardware components and software that are used in computers. If we fail to establish and maintain these relationships, it would be more difficult for us to develop and market products with features that address emerging market trends.

IF OUR PRODUCTS ARE NOT COMPATIBLE WITH THE OTHER COMPONENTS THAT OUR CUSTOMERS DESIGN INTO THEIR SYSTEMS, SALES OF OUR PRODUCTS COULD BE DELAYED OR CANCELLED AND A SUBSTANTIAL PORTION OF OUR PRODUCTS COULD BE RETURNED.

Our products are designed to function as components of a system. We anticipate that our customers will use our products in systems that have differing specifications and that require various other components, such as dynamic random access memory, or DRAM, and other semiconductor devices. If our customers' systems are to function properly, all of the components must be compatible with each other. If our customers experience system-level incompatibilities between our products and the other components in their systems, we could be required to modify our products to overcome the defects or delay shipment of our products until the manufacturers of other components modify their products or until our customers select other components. These events would delay purchases of our products, cause orders for our products to be cancelled or result in product returns. System level incompatibilities that are significant, or are perceived to be significant, could also result in negative publicity and could significantly damage our business.

IF OUR CUSTOMERS ARE NOT ABLE TO OBTAIN THE OTHER COMPONENTS NECESSARY TO BUILD THEIR SYSTEMS, SALES OF OUR PRODUCTS COULD BE DELAYED OR CANCELLED.

Suppliers of other components incorporated into our customers' systems may experience shortages, which could affect the demand for our products. For example, from time to time, the semiconductor industry has experienced shortages of some materials and devices, including DRAM. Our customers could be forced to defer or cancel purchases of our products if they are not able to obtain the other components necessary to build their systems.

THERE MAY BE SOFTWARE APPLICATIONS THAT ARE NOT COMPATIBLE WITH OUR PRODUCTS, WHICH MAY HARM OUR REPUTATION, PREVENT OUR PRODUCTS FROM ACHIEVING MARKET ACCEPTANCE AND IMPAIR OUR REVENUE GROWTH.

Software applications with machine-specific routines programmed into them can result in specific incompatibilities. If a particular software application is programmed in a manner that makes it unable to respond correctly to our microprocessor, it will appear to users of that software that our microprocessor is not x86 compatible. We have encountered specific incompatibilities in the past and expect to do so in the future, which could harm our reputation. In addition, if customers perceive that our products are not sufficiently x86 compatible, our products may never achieve market acceptance and our revenue growth would be impaired.

If We Fail to Manage Our Growth Effectively, Our Business May Not Succeed.

Our ability to implement our business plan in a rapidly evolving market requires an effective planning and management process. We have recently increased our number of employees substantially and plan to increase the scope of our operations and the size of our direct sales force domestically and internationally. This growth will require us to continue to expand our facilities. In addition, this growth may place a significant strain on our management systems, infrastructure and other resources. We expect that we will need to continue to improve our financial and managerial controls and procedures. We will also need to expand, train and manage our workforce worldwide. Furthermore, we expect that we will be required to manage an increasing number of relationships with customers and other third parties. Our failure to manage our growth effectively would harm our business.

OUR LENGTHY AND VARIABLE SALES CYCLES MAKE IT DIFFICULT FOR US TO PREDICT WHEN AND IF A DESIGN WIN WILL RESULT IN VOLUME SHIPMENTS.

We depend upon companies designing our microprocessors into their products, which we refer to as design wins. Many of our targeted customers consider the choice of a microprocessor to be a strategic decision. Our targeted customers may take a long time to evaluate our products, and many individuals may be involved in the evaluation process. We anticipate that the length of time between our initial contact with a customer and the time when we recognize revenue from that customer will vary. We expect our sales cycles to range from six to twelve months from the time we achieve the design win to the time the customer begins volume production of products that incorporate our microprocessors. We do not have historical experience selling our products that is sufficient for us to determine how our sales cycles will affect our revenue. Variations in the length of our sales cycles could cause our revenue to fluctuate widely from period to period. While potential customers are evaluating our products and before they place an order with us, we may incur sales and marketing expenses and expend significant management and engineering resources without any assurance of success. The value of any design win depends upon the commercial success of our targeted customers' products. Therefore, we take risks related to project cancellations or changed product plans, which could result in the loss of anticipated sales. We can offer no assurance that we will achieve further design wins or that the products for which we achieve design wins will be commercially successful.

IF WE DO NOT KEEP PACE WITH TECHNOLOGICAL CHANGE, OUR PRODUCTS MAY NOT BE COMPETITIVE AND OUR REVENUE AND OPERATING RESULTS MAY SUFFER.

The semiconductor industry is characterized by rapid technological change, frequent new product introductions and enhancements and ongoing customer demands for greater performance. In addition, the average selling price of any particular microprocessor product has historically decreased over its life, and we expect that trend to continue. As a result, our products may not be competitive if we fail to introduce new products or product enhancements that meet evolving customer demands. The development of new products is complex, and we may not be able to complete development in a timely manner, or at all. To introduce products on a timely basis, we must:

- accurately define and design new products to meet market needs;

- design features that continue to differentiate our products from those of our competitors;

- transition our products to new manufacturing process technologies;

- identify emerging technological trends in our target markets;

- anticipate changes in end-user preferences with respect to our customers' products;

- bring products to market on a timely basis at competitive prices; and - respond effectively to technological changes or product announcements by others.

We believe that we will need to continue to enhance our products and develop new products to keep pace with competitive and technological developments and to achieve market acceptance for our products.

OUR DEPENDENCE ON IBM TO FABRICATE WAFERS AND TO PROVIDE ASSEMBLY AND TEST SERVICES LIMITS OUR CONTROL OVER THE PRODUCTION, SUPPLY AND DELIVERY OF OUR PRODUCTS.

The cost, quality and availability of third-party manufacturing operations are essential to the successful production of our products. We currently rely exclusively on IBM to fabricate our wafers. Our contract with IBM does not obligate IBM to provide us with any specified number of wafers at any specified price until IBM has accepted a purchase order. The absence of dedicated capacity under our agreement means that, with little or no notice, IBM could refuse to continue to fabricate all or some of the wafers that we require or change the terms under which it fabricates wafers. If IBM were to stop manufacturing for us, we would likely be unable to replace the lost capacity on a timely basis, which would significantly harm our business. Transferring to another manufacturer would require a significant amount of time, and a smooth and timely transition would be unlikely. In addition, if IBM were to change the terms under which it manufactures for us, our manufacturing costs could increase.

Our reliance on a third-party manufacturer exposes us to the following risks outside our control:

- unpredictability of manufacturing yields and production costs;

- interruptions in shipments;

- potential lack of adequate capacity to fill all or part of the services we require;

- inability to control quality of finished products;

- inability to control product delivery schedules; and - potential lack of access to key fabrication process technologies.

Because IBM provides substantially all of our required assembly and test services, we do not directly control our product delivery schedules. This lack of control could result in product shortages as IBM manufactures our current products in volume and, in the future, as we introduce new products. Product shortages could increase our fabrication, assembly or testing costs or delay delivery of our products. We do not have a long-term contract with IBM for test and assembly services, and we typically procure

these services from IBM on a per order basis. Therefore, we may not be able to obtain assembly and testing services for our 12 products on acceptable terms, or at all. If we are required to find and qualify alternative assembly or testing services, we could experience delays in product shipments or a decline in product quality.

WE MAY NOT ACHIEVE ACCEPTABLE MANUFACTURING YIELDS, WHICH COULD INCREASE THE COST AND REDUCE THE SUPPLY OF OUR PRODUCTS.

The fabrication of wafers for our microprocessors is a highly complex and precise process that requires production in a tightly controlled, clean room environment. Minute impurities, difficulties in the fabrication process, defects in the masks used to print circuits on a wafer or other factors can cause numerous die on each wafer to be nonfunctional. The proportion of functional die expressed as a percentage of total die on a wafer is referred to as product "yield." Even with functional die, normal variations in wafer fabrication can cause some die to run faster than others. Semiconductor companies frequently encounter difficulties in achieving expected product yields. If we do not achieve expected yields, our product costs would increase. Variations in speed yield could lead to excess inventory of slower products and insufficient inventory of faster products, depending upon customer demand. Further, as our products mature, we may experience yield problems as we migrate our manufacturing processes to smaller geometries. Yield problems may not be identified and resolved until a product has been manufactured and can be analyzed and tested, if ever. As a result, yield problems are often difficult, time consuming and expensive to correct. Yield problems could hamper our ability to deliver our products to our customers in a timely manner.

IF WE FAIL TO FORECAST DEMAND FOR OUR PRODUCTS ACCURATELY, WE COULD LOSE SALES AND INCUR INVENTORY LOSSES.

Because we only introduced our products in January 2000, we have little historical information about demand for our products. We expect that the demand for our products will depend upon many factors and be difficult to forecast. We expect that it will become more difficult to forecast demand as we introduce a larger number of products and as competition in the markets for our products intensifies. Significant unanticipated fluctuations in demand could cause problems in our operations.

The lead time required to fabricate wafers in volume production is often longer than the lead time our customers provide to us for delivery of their product requirements. Therefore, we often must place our orders in advance of expected purchase orders from our customers. As a result, we have only a limited ability to react to fluctuations in demand for our products, which could cause us to have either too much or too little inventory of a particular product. If demand does not develop as we expect, we could have excess production, which would result in excess inventories of finished products, which would use cash and could result in inventory write-offs. We have limited capability to reduce ongoing production once wafer fabrication has commenced. Excess materials would likely result in excess or obsolete inventory. If demand exceeds our expectations, IBM may not be able to fabricate enough wafers as fast as we need them. In that event, we will need to increase production rapidly at IBM or find, qualify and begin production at additional manufacturers, which may not be possible within a timeframe acceptable to our customers. The inability of IBM to increase production rapidly enough could cause us

to fail to meet customer demand. In addition, rapid increases in production levels to meet unanticipated demand could result in higher costs for manufacturing and other expenses. These higher costs could lower our gross margins.

OUR PRODUCTS MAY INFRINGE THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS, WHICH MAY CAUSE US TO BECOME SUBJECT TO EXPENSIVE LITIGATION, CAUSE US TO INCUR SUBSTANTIAL DAMAGES, REQUIRE US TO PAY SIGNIFICANT LICENSE FEES OR PREVENT US FROM SELLING OUR PRODUCTS.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. We cannot be certain that our products do not and will not infringe issued patents or other intellectual property rights of others. Historically, patent applications in the United States have not been publicly disclosed until the patent is issued, and we may not be aware of filed patent applications that relate to our products or technology. If patents later issue on these applications, we may be liable for infringement. In addition, leading companies in the semiconductor industry have extensive portfolios with respect to semiconductor technology. From time to time, third parties, 13 including these leading companies, may assert exclusive patent, copyright, trademark and other intellectual property rights to technologies and related methods that are important to us. We expect that we may become subject to infringement claims as the number of products and competitors in our target markets grows and the functionality of products overlaps. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. We may also be subject to claims from customers for indemnification. Any resulting litigation could result in substantial costs and diversion of resources.

If it were determined that our products infringe the intellectual property rights of others, we would need to obtain licenses from these parties or substantially reengineer our products in order to avoid infringement. We might not be able to obtain the necessary licenses on acceptable terms or at all, or to reengineer our products successfully. Moreover, if we are sued for infringement and lose the suit, we could be required to pay substantial damages or enjoined from licensing or using the infringing products or technology. Any of the foregoing could cause us to incur significant costs and prevent us from selling our products.

OUR FAILURE TO PROTECT OUR PROPRIETARY RIGHTS, OR THE COSTS OF PROTECTING THESE RIGHTS, MAY HARM OUR ABILITY TO COMPETE.

We believe that our success will depend in part upon our proprietary technology. We rely on a combination of patents, copyrights, trademarks, trade secret laws and contractual obligations with employees and third parties to protect our proprietary rights. These legal protections provide only limited protection and may be time consuming and expensive to obtain and enforce. Our failure to adequately protect our proprietary rights could result in competitors offering similar products and impair our ability to compete. Moreover, despite our efforts to protect our proprietary rights, unauthorized parties may copy aspects of our products and obtain and use information that we regard as proprietary. Also, our competitors may independently develop similar, but not infringing,

technology, duplicate our products, or design around our patents or our other intellectual property. In addition, other parties may breach confidentiality agreements or other protective contracts with us, and we may not be able to enforce our rights in the event of these breaches. Furthermore, we expect that we will increase our international operations in the future, and the laws of many foreign countries do not protect our intellectual property rights to the same extent as the laws of the United States.

Our pending patent and trademark applications may not be approved. Even if our pending patent applications are approved, the resulting patents may not provide us with any competitive advantage or may be challenged by third parties. If challenged, our patents might not be upheld or their claims could be narrowed. Any litigation surrounding our rights could force us to divert important financial and other resources away from our business operations.

THE LOSS OF KEY MANAGEMENT AND TECHNICAL PERSONNEL, ON WHOSE KNOWLEDGE, LEADERSHIP AND TECHNICAL EXPERTISE WE RELY, WOULD HARM OUR ABILITY TO EXECUTE OUR BUSINESS PLAN.

Our success depends heavily upon the continued contributions of our key management and technical personnel, whose knowledge, leadership and technical expertise would be difficult to replace. Several of these personnel have been with us for a number of years. All of our executive officers and key personnel are employees at-will. We have no employment contracts and maintain no key person insurance on any of our personnel. If we were to lose the services of any of our key personnel, our ability to execute our business plan would be harmed.

IF WE ARE UNABLE TO HIRE, TRAIN AND RETAIN ADDITIONAL SALES, MARKETING, OPERATIONS, ENGINEERING AND FINANCE PERSONNEL, OUR GROWTH WILL BE IMPAIRED.

To grow our business successfully and maintain a high level of quality, we will need to recruit, retain and motivate additional highly-skilled sales, marketing, engineering and finance personnel. If we are not able to hire, train and retain a sufficient number of qualified employees, our growth will be impaired. In particular, we will need to expand our sales and marketing organizations in order to increase market awareness of our products and to increase revenue. In addition, as a company focused on the development of complex products, we will need to hire additional engineering staff of various experience levels in order to meet our product roadmap. Competition for skilled employees, particularly in the San Francisco Bay Area, is intense. We may have even greater difficulty recruiting potential employees after this offering if prospective employees perceive the equity component of our compensation package to be less valuable after this offering than before this offering.

SEVERAL OF OUR EXECUTIVES AND OTHER EMPLOYEES HAVE JOINED US ONLY RECENTLY, AND IF THEY ARE UNABLE TO WORK TOGETHER EFFECTIVELY, WE MAY NOT BE ABLE TO MANAGE OUR GROWTH AND OPERATIONS.

Several of our executives and other employees joined us only recently and have had only a limited time to work together. Mark K. Allen, our President and Chief Operating Officer, joined us in January 2000; David P. Jensen, our Vice President of Operations, joined us in February 2000; Merle A. McClendon,

our Chief Financial Officer, joined us in March 2000; John O. Horsley, our General Counsel, joined us in July 2000; and Barry L. Rubinson, our Vice President of Software, joined us in August 2000. If our management team is not able to work effectively together or with the rest of our employees to develop our technology and manage our growth and continuing operations, our business would be harmed.

WE MAY MAKE ACQUISITIONS, WHICH COULD PUT A STRAIN ON OUR RESOURCES, CAUSE DILUTION TO OUR STOCKHOLDERS AND ADVERSELY AFFECT OUR FINANCIAL RESULTS.

We may acquire companies to expand our business. Integrating newly acquired organizations and technologies into our company could put a strain our resources and be expensive and time consuming. We may not be successful in integrating acquired businesses or technologies and may not achieve anticipated revenue and cost benefits. In addition, future acquisitions could result in potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities or amortization expenses related to goodwill and other intangible assets, any of which could adversely affect our balance sheet or operating results. Moreover, we may not be able to identify future suitable acquisition candidates or, if we are able to identify suitable candidates, we may not be able to make these acquisitions on commercially reasonable terms or at all.

THE CYCLICAL NATURE OF THE SEMICONDUCTOR INDUSTRY COULD CREATE FLUCTUATIONS IN OUR OPERATING RESULTS.

The semiconductor industry has historically been cyclical, and characterized by wide fluctuations in product supply and demand. From time to time, the industry has also experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles and declines in general economic conditions. Industry downturns have been characterized by diminished product demand, production overcapacity and accelerated decline of average selling prices, and in some cases have lasted for more than a year. A downturn of this type occurred in 1997 and 1998. Our business could be harmed by industry-wide fluctuations in the future.

WE PLAN TO EXPAND OUR INTERNATIONAL OPERATIONS, AND THE SUCCESS OF OUR INTERNATIONAL EXPANSION IS SUBJECT TO SIGNIFICANT UNCERTAINTIES.

We believe that we must expand our international sales and distribution operations to be successful. We expect to sell a significant portion of our products to customers overseas. In attempting to conduct and expand business internationally, we are exposed to various risks that could adversely affect our international operations and, consequently, our operating results, including:

- difficulties and costs of staffing and managing international operations;

- fluctuations in currency exchange rates;

- unexpected changes in regulatory requirements, including imposition of currency exchange controls;

- longer accounts receivable collection cycles;

- import or export licensing requirements;

- potentially adverse tax consequences;

- political and economic instability; and - potentially reduced protection for intellectual property rights.

In addition, because we have suppliers that are located outside of the United States, we are subject to risks generally associated with contracting with foreign suppliers and may experience problems in the timeliness and the adequacy or quality of product deliveries.

Risks Related to This Offering

THERE HAS BEEN NO PRIOR PUBLIC MARKET FOR OUR STOCK; THE STOCKS OF TECHNOLOGY COMPANIES HAVE EXPERIENCED EXTREME PRICE AND VOLUME FLUCTUATIONS; AND OUR STOCK PRICE MAY BE VOLATILE, WHICH COULD ADVERSELY AFFECT YOUR INVESTMENT.

Before this offering, there has been no public market for our common stock. An active public market for our common stock may not develop or be sustained after this offering. The price of the common stock in any such market may be higher or lower than the price you pay. If you purchase shares of common stock in this offering, you will pay a price that was not established in a competitive market. Rather, you will pay the price that we negotiated with the representatives of the underwriters. Many factors could cause the market price of our common stock to rise and fall, including:

- variations in our quarterly results;

- announcements of technological innovations by us or by our competitors;

- introductions of new products or new pricing policies by us or by our competitors;

- acquisitions or strategic alliances by us or by our competitors;

- recruitment or departure of key personnel;

- the gain or loss of significant orders;

- the gain or loss of significant customers;

- changes in the estimates of our operating performance or changes in recommendations by any securities analysts that elect to follow our stock; and - market conditions in our industry, the industries of our customers and the economy as a whole.

In addition, stocks of technology companies have experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to these companies' operating performance. Public announcements by companies in our industry concerning, among other things, their performance, accounting practices or legal problems could cause fluctuations in the market for stocks of these and similar companies. These fluctuations could lower the market price of our common stock regardless of our actual operating performance.

In the past, securities class action litigation has often been brought against a company following a period of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources, which could harm our operating results and our business.

OUR OFFICERS, DIRECTORS AND AFFILIATED ENTITIES OWN A LARGE PERCENTAGE OF OUR COMPANY AND COULD SIGNIFICANTLY INFLUENCE THE OUTCOME OF ACTIONS IN WAYS THAT COULD ADVERSELY IMPACT OUR STOCK PRICE.

We anticipate that our executive officers, directors, entities affiliated with them and other 5% or greater stockholders will, in total, beneficially own approximately % of our outstanding common stock after this offering. These stockholders, acting together, would be able to significantly influence all matters requiring approval by our stockholders, including the election of directors. Thus, actions might be taken even if other stockholders, including those who purchase shares in this offering, oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company, which could harm our stock price.

MANAGEMENT WILL HAVE DISCRETION OVER THE USE OF PROCEEDS FROM THIS OFFERING AND COULD SPEND OR INVEST THOSE PROCEEDS IN WAYS WITH WHICH YOU MIGHT NOT AGREE.

We do not have a definitive quantified plan with respect to the use of the net proceeds of this offering. Our management will have broad discretion with respect to the use of the net proceeds from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. Some of the uses we currently anticipate include working capital and other general corporate purposes, including sales and marketing expenses, research and development expenses, general and administrative expenses and capital expenditures. In addition, we may use a portion of the net proceeds to acquire or invest in complementary businesses, technologies, product lines or products. These investments may not yield a favorable return.

SUBSTANTIAL FUTURE SALES OF OUR COMMON STOCK COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market after this offering or the perception that these sales could occur. Based on shares outstanding as of June 30, 2000, upon completion of this offering, we will have outstanding shares of common stock, or shares if the underwriters' over-allotment option is exercised in full. Of these shares, the common stock sold in this offering will be freely tradeable except for any shares purchased by our "affiliates" as defined in Rule 144 under the Securities Act of 1933. All of the 56,526,243 remaining shares of common stock held by our existing shareholders will be subject to 180-day lock-up agreements with the underwriters or with us. Morgan Stanley & Co. Incorporated, in its sole discretion, may release any portion of the securities subject to these lock-up agreements. After the 180-day lock-up period, these shares may be sold in the public market, subject to prior registration or qualification for an exemption from registration, including, in the case of shares held by affiliates, to compliance with volume restrictions. After the lock-up period, of these shares will be immediately

available for sale in the public market without registration under Rule 144. The remaining shares held by our existing stockholders will become available for sale under Rule 144 at varying times following the end of the 180-day lock-up period. Stockholders owning shares are entitled, pursuant to contracts providing for registration rights, to require us to register our securities owned by them for public sale. In addition, based on options outstanding as of June 30, 2000, after this offering, 7,277,040 shares will be issuable under outstanding options and warrants, approximately of which will be exercisable 180 days after this offering. We intend to file a registration statement to register for resale shares issuable upon the exercise of outstanding stock options and shares reserved for future issuance under our stock option and stock purchase plans.

YOU WILL EXPERIENCE IMMEDIATE AND SUBSTANTIAL DILUTION IN THE NET TANGIBLE BOOK VALUE OF THE SHARES YOU PURCHASE IN THIS OFFERING.

If you purchase shares of common stock in this offering, you will experience immediate and substantial dilution of $ per share, based on an assumed initial public offering price of $ per share. This dilution arises because our earlier investors paid substantially less than the public offering price when they purchased their shares of common stock. You will experience additional dilution upon the exercise of outstanding stock options or warrants to purchase our common stock. As of June 30, 2000, there were options and warrants outstanding to purchase 7,277,040 shares of common stock with a weighted average exercise price of $4.64 per share.

OUR CERTIFICATE OF INCORPORATION, BYLAWS AND DELAWARE LAW CONTAIN PROVISIONS THAT COULD DISCOURAGE OR PREVENT A TAKEOVER, EVEN IF AN ACQUISITION WOULD BE BENEFICIAL TO OUR STOCKHOLDERS.

Provisions of our certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions include:

- establishing a classified board of directors so that not all members of the board may be elected at one time;

- providing that directors may only be removed "for cause" and only with the approval of 66 2/3% of our stockholders;

- requiring super-majority voting to amend some provisions in our certificate of incorporation and bylaws;

- authorizing the issuance of "blank check" preferred stock that our board could issue to increase the number of outstanding shares and to discourage a takeover attempt;

- limiting the ability of our stockholders to call special meetings of stockholders;

- prohibiting stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;

- eliminating cumulative voting in the election of directors; and - establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law and the terms of our stock option plans may discourage, delay or prevent a change in control.

IF WE NEED ADDITIONAL FINANCING, WE MAY NOT BE ABLE TO RAISE FURTHER FINANCING OR IT MAY ONLY BE AVAILABLE ON TERMS UNFAVORABLE TO US OR OUR STOCKHOLDERS.

We believe that our available cash resources, combined with the net proceeds from this offering, will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least twelve months after the date of this prospectus. We might need to raise additional funds, however, to respond to business contingencies, which could include the need to:

- fund more rapid expansion;

- fund additional marketing expenditures;

- develop new products or enhance existing products;

- enhance our operating infrastructure;

- hire additional personnel;

- respond to competitive pressures; or - acquire complementary businesses or technologies.

If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders would be reduced, and these newly issued securities might have rights, preferences or privileges senior to those of existing stockholders, including those acquiring shares in this offering. Additional financing might not be available on terms favorable to us, or at all. If adequate funds were not available or were not available on acceptable terms, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our products or otherwise respond to competitive pressures would be significantly limited.

Special Note Regarding Forward-looking Statements

We have made statements under the captions "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and in other sections of this prospectus that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may," "might," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative or plural of these words and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include, among other things, projections of our future financial performance, our anticipated growth strategies and anticipated trends in our business and the markets in which we operate. These statements are only predictions, based on our current expectations and

projections about future events. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results, levels of activity, performance or achievements to differ materially from the results, levels of activity, performance or achievements expressed or implied by the forward-looking statements, including those factors discussed under the caption entitled "Risk Factors." You should specifically consider the numerous risks outlined under "Risks Factors."

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements.

Use of Proceeds

We estimate that the net proceeds from this offering will be approximately $ million, at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds will be approximately $ million.

While we do not have any specific plans or proposals for the allocation of the net proceeds of this offering, we currently expect to use the net proceeds from this offering for working capital and other general corporate purposes, including sales and marketing expenses, research and development expenses, general and administrative expenses and capital expenditures.

The amount and timing of what we actually spend for these purposes may vary significantly and will depend on a number of factors, including our future revenue and cash generated by operations and the other factors described in "Risk Factors." Therefore, we will have broad discretion in the way we use the net proceeds. Additionally, if appropriate opportunities arise, a portion of the net proceeds of the offering may be used for acquiring, or investing in, businesses, products or technologies or establishing joint ventures. We have no current agreements or commitments with respect to any acquisition or investment, and we currently are not engaged in negotiations with respect to any acquisition or investment. Pending these uses, we intend to invest the net proceeds in short-term, investment-grade, interest-bearing securities.

Dividend Policy

We have never declared or paid cash dividends on our capital stock. We currently expect to retain all available funds and any future earnings to finance the growth and development of our business. Therefore, we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future.

Capitalization

The following table sets forth our capitalization as of June 30, 2000. Our capitalization is presented (1) on an actual basis, (2) on a pro forma basis to reflect the conversion of our outstanding shares of preferred stock into 36,587,171 shares of common stock and the conversion of a convertible promissory note into 600,000 shares of common stock upon the closing of this offering, and (3) on a pro forma as adjusted basis to reflect the sale of shares of common stock offered by us at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

JUNE 30, 2000 PRO FORMA ACTUAL PRO FORMA AS ADJUSTED (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Long-term debt and capital lease obligations, net of current portion	$ 5,303	$ 5,303	$ 5,303
Deposits received under subleasing agreements	138	138	138
Payable to development partner	20,866	20,455	20,455
Total long-term obligations, net of current portion	26,307	25,896	25,896
Stockholders' equity:			
Convertible preferred stock, $.00001 par value at amounts paid in; 28,159,835 shares authorized, issued and outstanding, at June 30, 2000; 5,000,000 shares authorized and no shares issued and outstanding, pro forma or pro forma as adjusted	222,922	--	--
Common stock, $.00001 par value at amounts paid in; 80,000,000 shares authorized; 19,339,072 shares issued and outstanding, at June 30, 2000; 80,000,000 shares authorized, 56,526,243 shares issued and outstanding, pro forma; 1,000,000,000 shares authorized, shares issued and outstanding, pro forma as adjusted	37,724	261,057	
Notes receivable from stockholders	(11,019)	(11,019)	(11,019)
Deferred stock compensation	(14,808)	(14,808)	(14,808)
Deficit accumulated during development stage	(119,399)	(119,399)	(119,399)
Total stockholders' equity	115,420	115,831	
Total capitalization	$ 141,727	$ 141,727	$

The number of shares shown as issued and outstanding in the table above excludes the following:

- 6,203,824 shares of common stock issuable upon exercise of options outstanding at June 30, 2000 with a weighted average exercise price of $5.05 per share;

- 1,073,216 shares of common stock issuable upon exercise of warrants outstanding at June 30, 2000 with a weighted average exercise price of $2.27 per share; and - 5,597,644 additional shares available for issuance under our stock purchase and option plans.

Please read the capitalization table together with the sections of this prospectus entitled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

Dilution

Our pro forma net tangible book value as of June 30, 2000 was approximately $87.6 million, or $1.55 per share of common stock. Our pro forma net tangible book value per share represents our total tangible assets less total liabilities divided by the number of shares of our common stock outstanding on June 30, 2000 and assumes the conversion of our outstanding shares of preferred stock into 36,587,171 shares of common stock and the conversion of a convertible promissory note into 600,000 shares of common stock upon the closing of this offering.

Without taking into account any changes in pro forma net tangible book value after June 30, 2000, other than to give effect to the sale of shares of common stock offered by us at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of June 30, 2000 would have been approximately $ million, or $ per share of common stock. This amount represents an immediate increase in pro forma net tangible book value of $ per share to our existing stockholders and an immediate dilution in pro forma net tangible book value of $ per share to new investors purchasing shares in this offering. The following table illustrates the dilution in pro forma net tangible book value per share to new investors.

Assumed initial public offering price per share..... $ Pro forma net tangible book value per share as of June 30, 2000..... $ 1.55 Increase per share attributable to new investors..... Pro forma net tangible book value per share after this offering..... Dilution in pro forma net tangible book value per share to new investors..... $ The following table summarizes, as of June 30, 2000 on the pro forma basis described above, the number of shares of common stock purchased from us, the total consideration paid to us, and the average price per share paid to us by existing stockholders and to be paid by new investors purchasing shares of common stock in this offering at an assumed initial public offering price of $ per share, before deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

	SHARES PURCHASED		TOTAL CONSIDERATION		
	NUMBER	PERCENT	AMOUNT	PERCENT	AVERAGE PRICE PER SHARE
Existing stockholders.....	%	$	%	$	
New investors.....					
Total.....	%	$	%		

The above information excludes:

- 6,203,824 shares of common stock issuable upon exercise of options outstanding at June 30, 2000 with a weighted average exercise price of $5.05 per share;

- 1,073,216 shares of common stock issuable upon exercise of warrants outstanding at June 30, 2000 with a weighted average exercise price of $2.27 per share; and - 5,597,644 additional shares currently available for issuance under our stock purchase and option plans.

Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with, and are qualified by reference to, our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The consolidated statement of operations data for the years ended December 31, 1997, 1998 and 1999, and the consolidated balance sheet data as of December 31, 1998 and 1999, are derived from our consolidated financial statements included elsewhere in this prospectus, which have been audited by Ernst & Young LLP, independent auditors. The consolidated statement of operations data for the period from incorporation (March 3, 1995) to December 31, 1995 and for the year ended December 31, 1996, and the consolidated balance sheet data as of December 31, 1995, 1996 and 1997, are derived from financial statements not included in this prospectus, which have been audited by Ernst & Young LLP. The consolidated statement of operations data for the six months ended June 30, 1999 and June 30, 2000, and the consolidated balance sheet data as of June 30, 2000, are derived from unaudited consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited information on the same basis as the audited consolidated financial statements and have included all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results as of these dates and for these periods. The historical results are not necessarily indicative of results to be expected in any future period and results for the six months ended June 30, 2000 are not necessarily indicative of results to be expected for the full fiscal year.

	PERIOD FROM INCORPORATION (MARCH 3, 1995) THROUGH DECEMBER 31,	YEAR ENDED DECEMBER 31,				SIX MONTHS ENDED JUNE 30,	
	1995	1996	1997	1998	1999	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)						
CONSOLIDATED STATEMENT OF OPERATIONS DATA:							
Revenue:							
Product	$ 250	$ --	$ --	$ 326	$ 76	$ 74	$ 358
License	--	--	1,400	28,000	5,000	5,000	--
Total revenue	250	--	1,400	28,326	5,076	5,074	358
Cost of revenue	--	--	--	71	18	16	223
Gross profit	250	--	1,400	28,255	5,058	5,058	135
Operating expenses:							
Research and development	1,135	5,800	12,828	23,467	33,122	16,143	26,549
Selling, general and administrative	160	1,840	4,584	12,616	12,811	5,805	11,447
Amortization of deferred charge under license agreements	--	--	--	--	218		

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--       4,461
  Amortization of deferred stock
    compensation.........................          --             --          --          --          --
--       3,140
    Total operating expenses.............       1,295          7,640      17,412      36,083      46,151
21,948      45,597
Operating loss...........................      (1,045)        (7,640)    (16,012)     (7,828)
(41,093)    (16,890)    (45,462)
  Interest and other income..............          36            200          96         892       2,456
507       2,945
  Interest expense.......................          --            (31)       (271)     (1,154)
(1,952)     (1,001)       (876)
Loss before income taxes.................      (1,009)        (7,471)    (16,187)     (8,090)
(40,589)    (17,384)    (43,393)
Provision for income taxes...............          --             --          --       2,000         500
500          --
Net loss.................................     $(1,009)       $(7,471)   $(16,187)   $(10,090)
$(41,089)   $(17,884)   $(43,393)
Net loss per common share
  Basic and diluted......................     $  (.10)       $  (.75)   $  (1.57)   $   (.87)   $
(3.02)   $  (1.37)   $  (2.81)
Weighted average shares outstanding
  Basic and diluted......................      10,000         10,000      10,288      11,537      13,618
13,048      15,419
Pro forma net loss per share
  Basic and diluted (unaudited)..........                                                          $
(1.03)               $   (.88)
Pro forma weighted average shares
  outstanding
  Basic and diluted (unaudited)..........                                                            39,782
49,227
```

	DECEMBER 31,				JUNE 30,	
	1995	1996	1997	1998	1999	2000
	(IN THOUSANDS)					
CONSOLIDATED BALANCE SHEET DATA:						
Cash and cash equivalents	$6,951	$3,639	$5,342	$27,809	$46,645	$112,353
Working capital	6,933	3,063	2,732	21,909	58,912	106,065
Total assets	7,153	4,509	8,740	43,497	96,227	157,970
Long-term obligations, net of current portion	--	6,911	1,823	10,798	27,020	26,307
Total stockholders' equity	7,045	3,346	3,764	24,032	59,867	115,420

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations with the consolidated financial statements and the notes to the consolidated financial statements included elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that

involve risks, uncertainties and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under "Risk Factors" and elsewhere in this prospectus.

Overview

We develop and sell software-based microprocessors and develop additional hardware and software technologies that enable computer manufacturers to build computers that simultaneously offer long battery life, high performance and x86 compatibility. We rely on independent, third-party contractors to perform manufacturing, assembly and test functions. Our fabless approach allows us to focus on designing, developing and marketing our products and significantly reduces the amount of capital we need to invest in manufacturing products.

From our inception in March 1995 through June 30, 2000, we were in the development stage and engaged primarily in research and development. In 1999, we began focusing on achieving design wins with original equipment manufacturers, or OEMs, in addition to our ongoing development activities. In January 2000, we introduced our Crusoe family of microprocessors, and we began recognizing product revenue from sales of these microprocessors in the first half of 2000. We expect to be dependent on sales of these products and successive generations of these products for the foreseeable future. Since we introduced our products, we have been engaged in marketing and selling efforts, pre-production activities and continued research and development. Product shipments to date have consisted of prototypes and development systems.

License fees from IBM and Toshiba constituted substantially all of our revenue in 1997, 1998 and 1999. In connection with our research and development efforts, we negotiated a technology license agreement with IBM Corporation in December 1997 and a technology license agreement with Toshiba Corporation in February 1998. Under these agreements, we received license fees, access to technology, engineering and test services, mask sets and wafer and other production services and granted IBM and Toshiba rights to manufacture and market x86 compatible products incorporating the licensed technology. The IBM and Toshiba license agreements were amended such that we reacquired rights we previously granted to IBM and Toshiba to manufacture and market x86 compatible products. In connection with these amendments, we agreed to pay IBM a total of $33.0 million over the next four years and fixed the conversion rate of a convertible promissory note issued to IBM at 600,000 shares of our common stock. We also issued 600,000 shares of our common stock to Toshiba. IBM and Toshiba retain a license to manufacture, market and sell non-x86 compatible products incorporating the licensed technology. We are not entitled to any future license fees under these license agreements, and we do not expect to receive license revenue from any other party.

We expect to sell our products primarily to OEMs and, to a lesser extent, through distributors. We anticipate that a relatively small number of OEMs will account for a substantial percentage of our revenue. In August 2000, we entered into our first distribution agreement to support our sales and marketing activities in the Far East market, and we plan to enter into other distribution agreements during 2000. Although we expect to derive a significant portion of our product revenue from

customers in Asia, these customers ultimately sell their products to major PC manufacturers in the United States and Japan. All of our product revenue to date has been denominated in U.S. dollars, and we expect that most of our sales in the future will be denominated in U.S. dollars.

We recognize revenue from product sales upon transfer of title, providing for expected returns and warranty costs at that time. With respect to products shipped to distributors, we will defer recognition of product revenue until the distributors sell our products to their customers.

Cost of revenue consists primarily of the costs of manufacturing, assembly and test of our silicon chips, and compensation and associated costs related to manufacturing support, logistics and quality assurance personnel. Research and development expenses consist primarily of salaries and related overhead costs associated with employees engaged in research, design and development activities, as well as the cost of masks, wafers and other materials and related test services and equipment used in the development process. Selling, general and administrative expenses consist of salaries and related overhead costs for sales, marketing and administrative personnel and legal and accounting services. They will also include commissions paid to internal and external sales representatives, once we begin volume shipments. We have incurred no sales commission costs to date.

In connection with the grant of stock options to our employees in 2000, we recorded deferred stock compensation of approximately $16.6 million through June 30, 2000, representing the difference between the estimated fair value of the common stock for accounting purposes and the exercise price of these options at the date of grant. Deferred stock compensation is presented as a reduction of stockholders' equity and is amortized on the graded vesting method. In addition, we recorded $1.3 million of deferred compensation charges in the first quarter of 2000 related to a severance agreement with a former employee. We will incur substantial stock compensation expense in future periods.

Historically, we have incurred significant losses. As of June 30, 2000, we had an accumulated deficit of $119.4 million. We expect to incur substantial losses for the foreseeable future. We also expect to incur significant research and development and selling, general and administrative expenses. As a result, if our revenue does not increase substantially, our operating results will be adversely affected, and we will not achieve profitability.

Results of Operations

Six Months Ended June 30, 1999 and 2000

Revenue. Revenue in the six months ended June 30, 1999 included both license revenue from the Toshiba license agreement and product revenue. No future license revenue will be recognized in connection with this agreement. Revenue in the six months ended June 30, 2000 was comprised of product revenue derived from sales of our microprocessors, which were introduced in January 2000. Total revenue decreased from $5.1 million for the six months ended June 30, 1999 to $358,000 for the six months ended June 30, 2000 due to completion of the payments under the Toshiba license

agreement. Product revenue increased from $74,000 in the first six months of 1999 to $358,000 in the first six months of 2000, reflecting increased shipments of prototypes and development systems. Revenue to date does not include any volume product shipments.

Gross Profit. Product gross profit, which equals product revenue less cost of product revenue, increased from $58,000 in the six months ended June 30, 1999 to $135,000 in the six months ended June 30, 2000. These product gross profit amounts reflect sales of small volume prototypes and development systems, and do not indicate the product gross profit amounts that can be expected from volume production of microprocessors. We expect our gross margin, which is product gross profit as a percentage of product revenue, to change in future quarters as we commence volume shipments. In addition, we expect our gross margin to vary from period to period due to the mix of products sold, the stage in the life cycle of each of our products and expenses in connection with the manufacturing process. For example, newly-introduced products generally have higher average selling prices, which typically decline over product life cycles due to competitive pressures and technological advances.

Research and Development. Research and development expenses increased from $16.1 million in the six months ended June 30, 1999 to $26.5 million in the six months ended June 30, 2000. This increase was primarily due to increased prototype wafer costs, costs of other foundry services, mask set costs and costs of development systems used internally. In addition, we incurred higher costs for additional development personnel, and related facility and other allocable expenses. We expect that research and development expenses will increase in absolute dollars in future quarters as we develop new products, engage in other product development initiatives and increase our number of research and development personnel.

Selling, General and Administrative. Selling, general and administrative expenses increased from $5.8 million in the six months ended June 30, 1999 to $11.4 million in the six months ended June 30, 2000. This increase was primarily due to the hiring of additional personnel and a resulting increase in salaries and related costs, increased costs related to expanding our marketing and branding activities and increased facility and other allocable expenses. We expect that selling, general and administrative expenses will increase in absolute dollars in future quarters as we hire additional personnel, expand our sales and marketing efforts, begin to pay sales commissions and incur the costs associated with being a public company.

Amortization of Deferred Charge Under License Agreements. In connection with the renegotiation of our technology license agreement with IBM in November 1999, we agreed to pay a total of $33.0 million over the next four years in order to reacquire license rights previously granted to IBM. The present value of these payments was $18.9 million, was recorded as a liability in 1999 and is being amortized on a straight line basis over the license buyback period. Future amortization including accretion of the liability to IBM will be $3.6 million in the second half of 2000, $8.0 million in 2001, $7.9 million in 2002, $7.6 million in 2003, and $2.0 million in 2004.

In connection with the renegotiation of our technology license agreement with Toshiba in February 2000, we issued 600,000 shares of common stock to Toshiba. The deemed fair value of shares issued of $6.8 million is also being amortized on a straight line basis over the license buyback period. Future

amortization in connection with this stock issuance will be $1.1 million in the second half of 2000, $2.3 million in 2001, $2.3 million in 2002 and $375,000 in 2003.

We recorded amortization of deferred charges of $4.5 million in connection with these agreements in the six months ended June 30, 2000.

Amortization of Deferred Stock Compensation. Amortization of deferred stock compensation was $3.1 million in the six months ended June 30, 2000. In connection with stock option grants through June 30, 2000, we expect to record $4.9 million as an expense on our statement of operations in the remaining six months of 2000, $6.2 million in 2001, $3.7 million in 2002 and the balance in future years. We expect to incur additional deferred stock compensation amortization in connection with stock option grants made after June 30, 2000 and prior to the date of this offering.

Interest Income. Interest income reflects interest earned on cash and cash equivalents and short-term investment balances. Interest income increased from $507,000 in the six months ended June 30, 1999 to $2.9 million in the six months ended June 30, 2000. The increase was due to larger average invested cash balances resulting from the closing of an equity offering in April 2000.

Interest Expense. Interest expense consists of interest on our long-term debt and capital lease obligations used to finance capital expenditures. Interest expense decreased from $1.0 million in the six months ended June 30, 1999 to $876,000 in the six months ended June 30, 2000. This decrease was due to lower average debt balances.

Provision for Income Taxes. We recorded a tax provision of $500,000 for the six months ended June 30, 1999, relating to foreign taxes withheld on license revenue. No tax provision was recorded for the six months ended June 30, 2000.

Years Ended December 31, 1997, 1998 and 1999

Revenue. Revenue, substantially all of which was license revenue, increased from $1.4 million in 1997 to $28.3 million in 1998, and declined to $5.1 million in 1999. This revenue was earned in connection with the technology license agreements with IBM and Toshiba executed in 1997 and 1998. The significant increase in 1998 was due to payments from Toshiba.

We did not have any product revenue during the year ended December 31, 1997. Product revenue was $326,000 in 1998 and $76,000 in 1999 and related to the sale of prototypes and development systems. Product revenue decreased from 1998 to 1999 primarily due to one-time requirements for development systems used by licensees.

Gross Profit. Product gross profit on product sales decreased from $255,000 in 1998 to $58,000 in 1999. The product gross profit in 1998 and 1999 reflects sales of small volume prototypes and development systems.

Research and Development. Research and development expenses increased from $12.8 million in 1997 to $23.5 million in 1998 and $33.1 million in 1999. These increases were primarily due to hiring additional development personnel, prototype wafer costs and services, mask set costs and depreciation and amortization expense arising from significant purchases of computer aided design and other software tools.

Selling, General and Administrative. Selling, general and administrative expense increased from $4.6 million in 1997 to $12.6 million in 1998 and $12.8 million in 1999. These increases were due primarily to costs of additional personnel, increased costs related to expanding our marketing activities, costs of implementing an enterprise resource planning system in 1998 and increased legal, accounting and consulting fees.

Amortization of Deferred Charge Under License Agreement. We recorded amortization of $218,000 in 1999 in connection with the renegotiation of the IBM technology license agreement.

Interest Income. Interest income increased from $96,000 in 1997 to $892,000 in 1998 and $2.5 million in 1999. Interest income fluctuates primarily due to the timing of equity financings and resulting changes in average invested cash balances.

Interest Expense. Interest expense increased from $271,000 in 1997 to $1.2 million in 1998 and $2.0 million in 1999. These increases were primarily due to increasing average debt balances and capital expenditure financing activity as we expanded our operating activities.

Provision for Income Taxes. In 1998 and 1999, we recorded tax provisions of $2.0 million and $500,000, respectively, relating to foreign taxes withheld on license revenue. No tax provision was recorded in 1997.

Quarterly Results of Operations

The following table presents our unaudited quarterly results of operations data for the four quarters of 1999 and the first two quarters of 2000. We believe that this information has been prepared on the same basis as our audited consolidated financial statements and that all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the selected quarterly information. This information should be read in conjunction with our audited consolidated financial statements and the notes to those statements included elsewhere in this prospectus. Our quarterly results of operations for these periods are not necessarily indicative of future results of operations.

	THREE MONTHS ENDED				
	MAR. 31, 1999	JUN. 30, 1999	SEPT. 30, 1999	DEC. 31, 1999	MAR. 31, 2000	JUN. 30, 2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					
CONSOLIDATED STATEMENT OF OPERATIONS DATA:						
Revenue:						
Product	$ 61	$ 13	$ 2	$ --	$	

					4	$ 354
License	5,000	--	--	--	--	--
Total revenue	5,061	13	2	--	4	354
Cost of revenue	13	3	2	--	4	219
Gross profit	5,048	10	--	--	--	135
Operating expenses:						
Research and development	7,976	8,167	7,436	9,543	11,477	15,072
Selling, general and administrative	2,761	3,044	3,133	3,873	5,666	5,781
Amortization of deferred charge under license agreements	--	--	--	218	2,048	2,413
Amortization of deferred stock compensation	--	--	--	--	1,126	2,014
Total operating expenses	10,737	11,211	10,569	13,634	20,317	25,280
Operating loss	(5,689)	(11,201)	(10,569)	(13,634)	(20,317)	(25,145)
Interest and other income	283	224	957	992	938	2,007
Interest expense	(499)	(502)	(494)	(457)	(450)	(426)
Loss before income taxes	(5,905)	(11,479)	(10,106)	(13,099)	(19,829)	(23,564)
Provision for income taxes	500	--	--	--	--	--
Net loss	$ (6,405)	$(11,479)	$(10,106)	$(13,099)	$(19,829)	$(23,564)

Operating expenses have generally increased over the six quarters ended June 30, 2000. After September 30, 1999, research and development expenses increased primarily due to increased costs for wafers, services, mask sets and development systems. In addition, costs of additional development personnel and related facility and other allocable expenses increased. The increases in selling, general and administrative expenses were primarily due to increased salaries and related costs and increased costs related to expanding our marketing and branding activities in the six months ended June 30, 2000, as well as increased facility and other allocable expenses.

Liquidity and Capital Resources

Since our inception, we have financed our operations primarily through private sales of convertible preferred stock and, to a lesser extent, from license revenue and capital lease financing. At June 30, 2000, we had $112.4 million in cash and cash equivalents.

Net cash used in operating activities was $14.0 million in 1997, $5.2 million in 1998, $36.4 million in 1999 and $30.7 million in the six months ended June 30, 2000. In 1997, net cash used in operating activities was attributable to our net loss of $16.2 million, partially offset by increases in accounts

payable and accrued liabilities. In 1998, 1999 and the six months ended June 30, 2000, net cash used in operating activities was attributable to our net losses, partially offset by non-cash depreciation and amortization charges and increases in accounts payable and accrued liabilities.

Net cash used in investing activities was $2.6 million in 1997, $15.9 million in 1998, and $19.2 million in 1999. Net cash used in investing activities consisted of capital expenditures and short-term investments. Capital expenditures were $2.6 million in 1997, $13.9 million in 1998 and $1.4 million in 1999 and consisted primarily of property, equipment and software. Net cash provided by investing activities was $9.9 million in the six months ended June 30, 2000. Net sales of short-term investments totaled $16.8 million and we used cash of $1.7 million to purchase property, equipment and other assets in the six months ended June 30, 2000.

Net cash provided by financing activities was $18.3 million in 1997, $43.5 million in 1998, $74.4 million in 1999 and $86.6 million in the six months ended June 30, 2000. In 1997, net cash provided by financing activities was primarily attributable to net proceeds from the sale of convertible preferred stock. In 1998, net cash provided by financing activities was primarily attributable to net proceeds from the sale of convertible preferred stock, and the issuance of debt and capital lease obligations to finance property and equipment. In 1999 and the six months ended June 30, 2000, net cash provided by financing activities was primarily attributable to net proceeds from the sale of convertible preferred stock.

We lease equipment and software under non-cancelable leases with terms ranging from 36 to 48 months. We lease our facilities under non-cancelable operating leases, expiring in 2008. At June 30, 2000, we had total minimum lease payments of $35.7 million under our operating leases and $7.5 million under our capital leases. We also had minimum aggregate principal payments of $4.8 million under our long-term debt.

Our relationship with our foundry, IBM, allows us to cancel all outstanding purchase orders, but requires us to pay the foundry for expenses it has incurred in connection with the purchase orders through the date of cancellation. As of June 30, 2000, IBM had incurred approximately $18.4 million of manufacturing expenses on our outstanding purchase orders.

As of June 30, 2000, we had no commitments for capital expenditures. We anticipate that capital expenditures will be required as we grow our business. We believe that existing cash, cash equivalent and short-term investment balances will be sufficient to fund our operations for at least the next twelve months as we expand our business and increase commercial production and sales of our products. After this period, capital requirements will depend on many factors, including the rate of sales growth, market acceptance of our products, costs of securing access to adequate manufacturing capacity, the timing and extent of research and development projects and increases in our operating expenses. To the extent that funds generated by this offering, together with existing cash, cash equivalent and short-term investment balances and any cash from operations, are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Although we are currently not a party to any agreement or letter of intent with respect to a potential acquisition or

strategic arrangement, we may enter into acquisitions or strategic arrangements in the future, which also could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Quantitative and Qualitative Disclosure of Market Risks

Interest Rate Risk. Our cash equivalents and short-term investments are exposed to financial market risk due to fluctuations in interest rates, which may affect our interest income. As of June 30, 2000, our cash equivalents included money market funds, Federal agency discount notes and commercial paper and earn interest at an average rate of 6.6%. Due to the short-term nature of our investment portfolio, we would not expect our operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates. We do not use our investment portfolio for trading or other speculative purposes.

Foreign Currency Exchange Risk. All of our sales and substantially all of our expenses are denominated in U.S. dollars. As a result, we have relatively little exposure to foreign currency exchange risk. We do not currently enter into forward exchange contracts to hedge exposures denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. However, in the event our exposure to foreign currency risk increases, we may choose to hedge those exposures.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133, as amended, establishes methods for recording derivative financial instruments and hedging activities related to those instruments, as well as other hedging activities. We are required to adopt SFAS 133 effective January 1, 2001. Because we currently do not hold any derivative instruments and do not engage in hedging activities, we do not currently believe that the adoption of SFAS 133, as amended, will have a significant impact on our financial position or results of operations.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101. SAB 101 summarizes certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. We believe that our current revenue recognition principles comply with SAB 101.

In March 2000, the Emerging Issues Task Force of the FASB issued EITF Issue 00-2, "Accounting for Website Development Costs." The issue addresses how an entity should account for costs incurred to develop a website. The total capitalizable costs associated with the development of our website have been immaterial to date and have not been capitalized.

In March 2000, the FASB issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, Interpretation of APB Opinion No. 25." Interpretation No. 44 clarifies the application of Accounting Principle Board Opinion No. 25 to certain issues including: (1) the definition

of employee for purposes of applying APB Opinion No. 25, (2) the criteria for determining whether a plan qualifies as a noncompensatory plan, (3) the accounting consequences of various modifications to the terms of a previously fixed stock option or award, and (4) the accounting for an exchange of stock compensation awards in business combinations. In general, Interpretation No. 44 is effective July 1, 2000. We do not expect the adoption of Interpretation No. 44 to have a material effect on our consolidated financial position or results of operations.

Business

Overview

Transmeta Corporation develops and sells hardware and software technologies used to build Mobile Internet Computers, which are portable computing and communication devices that are compatible with x86 software and provide sufficient performance to run demanding Internet media applications while also offering long battery life. Mobile Internet Computers include traditional notebook computers and newly emerging Internet appliances. We believe that Mobile Internet Computers using our products will allow users to access the Internet virtually anywhere and anytime, and to benefit from the same full-featured computing experience that they currently enjoy with their desktop PCs. Crusoe is the name for our software-based family of microprocessors that operate with low power consumption, offer high performance and are compatible with software designed for IBM x86 PC compatible computers. Transmeta offers Crusoe microprocessors suitable for a broad set of existing and emerging end markets.

Industry Background

The Evolution of the Desktop Personal Computer Toward Mobile Internet Computing

The desktop personal computer, or PC, is widely used for business and personal activities and is commonly found in both the workplace and the home. Although the PC was originally developed to run software applications on a standalone basis, the emergence of the Internet has dramatically changed how people use the PC. The PC is now commonly used for communication and collaboration over the Internet in addition to computation and word processing functions. Electronic mail, or email, is a widely used means of communication and information delivery. Many PC users spend a significant portion of their PC usage time browsing the World Wide Web. The Internet has also become an efficient means of conducting personal and business transactions, primarily through business-oriented websites and online business exchanges. Internet usage has proliferated to the point where, out of a United States population of 273 million people, International Data Corporation, or IDC, estimates that more than 100 million access the Internet.

People are becoming increasingly mobile in their business and personal activities, and are using the Internet to connect remotely to their businesses, family and friends. As people become more dependent upon email and visiting their favorite sites on the World Wide Web, they want to have Internet access wherever they go. Notebook computers enable people to bring the PC experience with them when they are away from their homes and offices. The notebook computer market is expected to grow as people use the Internet for web access, email and other forms of communication, in addition to running business and personal software applications. According to IDC, approximately 20 million notebook computers were shipped during 1999 and this number is expected to grow to approximately 35 million in 2003.

As users seek access to the Internet anytime and anywhere, we believe they will want the same portable convenience that they currently enjoy from cellular phones. Until recently, most users have accessed the Internet through a wired Internet connection in office environments or through dial-up modems in home environments. However, consumer demand has caused the proliferation of Internet connections to many locations, such as airports and hotels, where a mobile Internet user may need them. Wireless modem technologies currently exist to help mobile users reach the Internet when these land-based connections are unavailable. We believe that the emergence of new wireless technologies will further increase demand for Internet access from battery-powered mobile devices.

As mobile computer users increasingly use wireless technologies to access the Internet, they are likely to expect the same full Internet experience that they currently have with a desktop PC. We believe this ability to access the entire Internet, anywhere and anytime, with mobile computing devices will change people's view of communication like cellular telephones changed how we use the telephone. We refer to these devices, which include notebook computers and newly emerging devices such as full-featured Internet appliances, as "Mobile Internet Computers."

The demand for Internet access has spawned an emerging market for simpler computing devices dedicated to Internet applications. Often referred to as "Internet appliances," these devices are designed to provide the user with an Internet experience comparable to that delivered by a desktop PC. These appliances take many forms, such as a handheld web tablet or a desktop flat panel display with the electronics behind the display. As these devices proliferate throughout the home and office, other types of Internet appliances are emerging, such as set-top boxes and residential gateways. Some of these devices will transform the wired Internet connection into radio-based communication for other Internet appliances in the home. For example, the 11 Mbps IEEE 802.11(b) radio standard is being used to provide high-speed wireless Internet connections in the home. Today the market for Internet appliances is in its infancy, but is predicted to grow rapidly. IDC predicts that the market for Internet appliances and other similar devices that access the Internet will grow to more than 75 million units in 2003.

The personal computer has improved tremendously since the introduction of the first 64KB 5-MHz IBM x86 PC in 1981. While hardware performance and memory capacity have each increased by a factor of about one thousand since the original IBM x86 PC, software compatibility has remained largely unchanged. Personal computers that retained software compatibility with the x86 computer

instruction language have thrived, while those that tried to use other microprocessors incompatible with the x86 PC have not sustained significant market share. Adherence to IBM x86 PC compatibility has been critical for the success of both new PCs and thousands of PC-oriented software applications. Microsoft's Windows95, Windows98 and Windows Millennium Edition operating systems, for example, are only available for x86 compatible PCs.

Beyond compatibility with standalone x86 PC software, the ability to access the entire Internet and obtain the full Internet experience usually requires x86 compatibility. Software developers and developers of websites often presume that users will be accessing the Internet through an x86 compatible PC. Software developers will often use new multimedia and animation techniques in order to attract people to their websites. Often these new techniques are delivered through small software programs, called plug-ins, that extend the functionality of a web browser. Most plug-ins are composed of small x86 compatible software programs downloaded over the Internet. This means that an x86 plug-in will not run unless the web browser is running on an x86 compatible microprocessor. Without plug-in functionality, sections of a website dependent on a plug-in are inaccessible, denying the user the full Internet experience. Full compatibility with the Internet demands x86 software compatibility.

Desirable Features for Mobile Internet Computers

Today's mobile computers can still be improved in many ways. For users to obtain a truly satisfying Internet computing experience and for the markets for notebook computers and Internet appliances to reach their full potential, a wide range of user requirements must be simultaneously satisfied. To date, no technology has enabled the full mobile Internet experience that incorporates the wide range of features that users desire. We believe that the successful evolution of Mobile Internet Computers will require a single solution that addresses all of the following user desires:

LONGER BATTERY LIFE. As users become increasingly mobile in their business and personal lives, their ability to plug their Internet computing devices into an electrical socket becomes increasingly constrained. To mitigate this problem, Mobile Internet Computing devices need to run several hours on battery power alone, significantly longer than the one to two hours often experienced with existing notebook computers. In addition, because mobile users tend to run the same high performance applications whether their computers are plugged into an electric socket or running on battery power, they will want several hours of battery life without noticeably sacrificing performance or portability. For example, the ability of a battery to last for the entire duration of a transatlantic airline flight would greatly increase the utility of notebook computers.

LIGHTER WEIGHT. Lighter and thinner notebook computers have grown in popularity as people who need to stay connected to the Internet have become less willing to travel regularly with heavy notebook computers. Notebook computers can weigh as much as 8 or 9 pounds, making them cumbersome to carry. One of the heaviest components of the notebook is the battery, but reducing the battery size to reduce weight also reduces the notebook's running time before it must be recharged.

COMPARABLE PERFORMANCE. Most people are accustomed to accessing the Internet through an x86 desktop PC. Playing a DVD movie, downloading an MPEG-4 streaming video movie or running a Macromedia Flash plug-in, for example, require levels of performance comparable to that of a typical 400 MHz desktop x86 PC. As mobile computing becomes a more integral part of daily business and personal life, users will expect comparable levels of performance from their Mobile Internet Computers.

FULL X86 SOFTWARE AND INTERNET COMPATIBILITY. The majority of Internet sites presume the user has an x86 notebook or desktop PC. Users will expect the same full-featured Internet experience from any new Mobile Internet Computer as they enjoy with their desktop PC. Internet users require x86-based plug-in applications and general application software in order to enjoy an experience comparable to that of the desktop PC. Thus, we believe that compatibility with the x86 instruction set and basic PC system infrastructure will be important for any Mobile Internet Computer.

COST EFFECTIVE. For Mobile Internet Computers to proliferate, they must be priced at levels that are suitable for consumer electronic devices. Particularly in the Internet appliance market, consumers are expected to look for moderately priced alternatives to the desktop PC and notebook computer to be used throughout the home and office.

COOL AND QUIET. As Mobile Internet Computers become more consumer-oriented, issues such as cooling fan noise and surface heat will become increasingly important to minimize the annoyance and discomfort associated with loud fans and hot notebook computers. Ideally, Mobile Internet Computers will remain cool without requiring a noisy fan.

The Industry Microprocessor Dilemma

Within a notebook computer or Internet appliance, the microprocessor usually dictates the characteristics of the entire computer system. Unfortunately, no single microprocessor has simultaneously enabled all of the characteristics users desire for full-featured Mobile Internet Computers. These limitations force system designers to make choices among various features such that only a subset of user requirements is satisfied when using any traditional microprocessor. For example, a common tradeoff in existing products is that x86 compatibility is sacrificed in order to achieve longer battery life.

Two types of microprocessor architectures dominate today's marketplace. They are generically known as Reduced Instruction Set Computers, or RISC, and Complex Instruction Set Computers, or CISC. RISC is represented by a variety of different microprocessor architectures such as ARM, MIPS, PowerPC and SPARC, and CISC is typically represented by microprocessors found in x86 PCs. RISC microprocessors were developed in the 1980s as a way to use a simpler microprocessor design to provide higher performance. However, RISC instruction sets are not compatible with x86 PC software, and systems that use this architecture have much more limited software availability. Over recent years, CISC microprocessor design teams have found that they were able to achieve levels of performance similar to RISC chips by adding further complexity to their designs. However, more complex designs

have a number of other drawbacks, including additional power usage and larger, more costly chips. When considering alternatives among commonly available microprocessors, system designers typically have the following choices and tradeoffs:

- HIGH PERFORMANCE, HIGH POWER X86 COMPATIBLE MICROPROCESSORS. These are microprocessors typically used in a mobile or desktop PC. For a Mobile Internet Computer, the most important user disadvantages of these microprocessors are high power consumption and limited battery life.

- LOW-PERFORMANCE X86 COMPATIBLE MICROPROCESSORS. These devices are usually based on an older generation microprocessor, such as a 486 generation design. The cost of these older designs is usually very low, but performance is often not sufficient to run modern multimedia applications such as MPEG-4 video movies.

- HIGH PERFORMANCE, HIGH POWER RISC MICROPROCESSORS. These microprocessors are often found in RISC workstations and do not provide compatibility with x86 PC application software or x86 plug-ins.

- LOW POWER RISC MICROPROCESSORS. There are several low power RISC microprocessors that can provide excellent battery life, but the lack of x86 compatibility limits their ability to provide the full-featured Internet experience, which requires the ability to run PC software and x86 plug-ins.

We believe that no single microprocessor to date has provided enough of the desired characteristics for Mobile Internet Computers to satisfy user requirements and to achieve their full market potential. As a result, systems developers must compromise their designs and speculate regarding the features consumers might be willing to sacrifice as part of their Mobile Internet Computing experience.

Transmeta's Solution

Transmeta develops and sells software-based microprocessors and develops additional hardware and software technologies that enable computer manufacturers to build computers that simultaneously offer long battery life, high performance and x86 compatibility. We have developed and patented the first software-based microprocessor that is built using dynamic translation software as part of the microprocessor. Our Crusoe microprocessors are unique because unlike traditional microprocessors that are built entirely with silicon hardware, they are composed of both a software and a hardware component.

The software component of our Crusoe microprocessors is called Code Morphing software. The primary function of Code Morphing software is to provide a compatibility bridge between standard x86 PC software and our hardware chip with its own proprietary instruction set. Code Morphing software dynamically translates the ones and zeros of the x86 software instructions into a functionally equivalent but simpler set of ones and zeros that our hardware chip decodes and executes. This

translation process is undetectable to the end user. In addition, Code Morphing software continuously learns about the programs run by a user in order to re-optimize the operation of those programs so that they run on Crusoe with the lowest power usage and highest performance.

The hardware component of our Crusoe microprocessors is a silicon chip using a Very Long Instruction Word, or VLIW, architecture. It has a proprietary instruction set with instructions up to 128-bits long. This chip provides the basic processing units, registers and cache memory. Our VLIW architecture provides for large amounts of instruction-level parallelism as a way to achieve high performance with a relatively simple internal design primarily optimized for speed and low power. Responsibility for complex control and instruction scheduling functions, which is normally found in hardware, is transferred to the Code Morphing software. Moving these functions from hardware into software results in a design with fewer logic transistors, and hence a smaller die size, to achieve a given level of performance.

Our unique software-based microprocessor approach can help computers built with Crusoe microprocessors to achieve the following benefits:

- LONGER BATTERY LIFE. Crusoe microprocessors consume less power than other x86 microprocessors -- around 1 watt or less in typical applications. Existing x86 microprocessors with features comparable to those of Crusoe may range in power usage from 6 to 10 watts or more in similar applications. Since the microprocessor is often the largest user of overall system power, Crusoe's lower power consumption translates into longer battery life for a given battery size.

- LIGHTER WEIGHT. The battery is often the heaviest single component in a mobile computer. Because Crusoe microprocessors use less power than typical hardware-based microprocessors, system designers have the option to build lighter weight computers with smaller batteries. Crusoe's lower power consumption also means that systems can be designed without heavy components used to eliminate heat, such as a fan or heat pipe, which add additional weight and thickness.

- COMPARABLE PERFORMANCE. Crusoe microprocessors provide performance comparable to that of typical x86 desktop computers. For example, Crusoe microprocessors offer sufficient performance for highly computational multimedia tasks such as software decoding a DVD movie.

- FULL X86 AND INTERNET SOFTWARE COMPATIBILITY. Crusoe microprocessors are compatible with software written for the x86 PC and the Internet. This allows Crusoe microprocessors to run x86-based Internet software such as browser plug-ins, as well as the wide range of software applications familiar to users of desktop PCs. Crusoe microprocessors are compatible with operating systems, BIOS and applications software that normally run on x86 PCs.

- COST-EFFECTIVE APPROACH. By moving functionality from hardware into software, Crusoe's VLIW hardware uses fewer logic transistors than other x86 PC microprocessors, resulting in a chip with a less complex and smaller die. Smaller chips cost less to manufacture than larger chips. Our small die size has also allowed us to integrate additional functionality, which can save space on the motherboard and provide OEMs with the cost advantages of a one-chip solution compared to a two-chip solution.

- COOL AND QUIET. Because Crusoe microprocessors consume low power, computers using Crusoe generally do not require a cooling fan. This eliminates fan noise, fan weight, fan cost, and power consumption by the fan itself. We believe that cool and quiet computers will be increasingly valued as Internet appliances become more common in the home.

- DOWNLOADABLE OVER THE INTERNET. Because Crusoe is implemented with software, we can send new versions of Code Morphing software over the Internet. We can use this feature to send product updates to customers, as well as to provide specialized versions with additional diagnostic capabilities, or even to fix bugs that may be found at a future time.

We believe that we have one of the foremost combined hardware and software engineering teams involved with microprocessor design. David Ditzel, our Chief Executive Officer and a co-founder of Transmeta, is a pioneer designer in the microprocessor arena. Over the last 25 years, he co-developed RISC microprocessor technology while employed at AT&T's Bell Laboratories, and was director of SPARC Laboratories and Chief Technical Officer of Sun Microsystems' Microelectronics division. We have recruited a talented engineering staff in both hardware and software areas consisting of many well respected senior engineers. For example, we employ Linus Torvalds, the originator of the Linux operating system, to work on a variety of software projects within the Crusoe solution. At August 15, 2000, at least 138 of our employees had post-graduate degrees, of which 44 have Ph.Ds.

Strategy

Our objective is to provide industry-leading low power processing solutions combined with x86 software compatibility at a variety of compelling cost and performance points. Key elements of our strategy include:

Extending Our Leadership in Software-Based Microprocessor Technologies. We plan to extend our leadership position in software-based microprocessor technology to provide differentiated products to the market. We intend to develop successive generations of VLIW architectures and Code Morphing software optimizations to further enhance power management and performance, while maintaining x86 software compatibility. We also intend to exploit the unique characteristics of software to continue to move additional hardware features into software. We plan to extend the ability of our Code Morphing software to "learn" about the characteristics of an application program while it is running, and to use this knowledge to further improve performance and lower power consumption.

Focusing On the Notebook Computer and Mobile Internet Appliance Markets. Our initial goal is to target our Crusoe microprocessors at growing markets where low power, mobility and x86 PC software compatibility are paramount, such as in the Mobile Internet Computing market. We believe that we are well positioned to be the leading microprocessor solution for Mobile Internet Computing devices, which are at the convergence point between communications and computing. Our initial products are focused on the growing light weight notebook computer market, which seeks long battery life combined with high performance. We are also focused on the evolving Internet appliance market, where low power consumption and low cost are important.

Developing Additional Low Power Markets Beyond Mobile Computing. We believe that there are a number of new market opportunities for our Crusoe microprocessors where low power and x86 software compatibility are particularly important, but where mobility and battery life may not be a factor. Next generation set-top boxes, for example, will need x86 compatibility to provide Internet connectivity and web 35 browsing, and sufficient performance to deliver streaming media in a home environment where a cool and quiet system without a noisy fan will be desired. As people acquire multiple computers or Internet appliances in the home, they will need a facility, such as a home network server or a residential gateway, for connecting them to each other and to the Internet. We also see a developing interest in a new type of web server, where the critical factor is the number of processors per unit volume. This is an application for which Crusoe's low power features are particularly attractive.

Developing Relationships With Companies and Communities That Enhance Our Business. We are working aggressively to develop relationships with others that enhance our respective businesses and allow us to focus on our core competencies. We work closely with our OEM customers to collaborate on the specifications for our next generation products. We have developed a working relationship with Microsoft to ensure compatibility with their software products and to collaborate on future products. We also work closely with the Linux community to develop new features for our customized version of Linux, called Mobile Linux, and we intend to share those improvements with the open source community. We use IBM to fabricate silicon wafers using advanced process technologies rather than developing our own manufacturing facilities. We believe that these relationships will enable computer manufacturers to bring Crusoe-based computers to market quickly.

Developing Expertise Across the Entire Computer System. To speed the adoption of our technology and improve our customers' time-to-market, we often provide our targeted customers with complete reference computer system solutions. By building an entire computer system, we can innovate across all the components of a computer system and help our customers resolve system design issues. We are committed to bringing expertise to our customers not only in microprocessors, but also in the engineering know-how of motherboard design, BIOS porting, operating system bring up, compatibility testing, power management tuning and thermal design issues. We believe that our ability to provide comprehensive systems expertise will continue to improve our customers' time-to-market and accelerate the adoption of the Crusoe solution.

Core Competencies and Technologies

We are involved in the research, design, product development and system integration of many of the software and hardware technologies that make up a complete x86 PC compatible computer system. In addition to the microprocessor, the quality of the final computer system depends on the successful integration and optimization of all of the various hardware and software components in the computer. Our understanding of the complete computer system and our ability to provide and improve an optimized total platform solution for our customers are the result of our core competencies and technologies.

CRUSOE MICROPROCESSOR DEVELOPMENT. Our approach to microprocessor design implements substantial portions of the microprocessor with software. Each of our Crusoe microprocessors consists of both a software component and a hardware component. When combined, these two components form a single microprocessor solution that is compatible with software programs designed for x86 PC compatible computers, operates using less power than other x86 microprocessors and runs applications with performance levels comparable to those of desktop computers.

We believe that there are several technical and business benefits to this approach. By partitioning the complex problem of designing a microprocessor into two pieces, each piece is individually simpler to implement. A substantial portion of the functionality of our microprocessor is implemented with software, which allows the remaining functionality to be implemented in a relatively simple semiconductor chip. We have developed substantial technical expertise and technology in developing the following components in our microprocessor.

- CODE MORPHING SOFTWARE. The software component of our Crusoe microprocessors is called Code Morphing software, because it dynamically translates, or morphs, x86 instructions into VLIW instructions. Code Morphing software dynamically translates from the ones and zeros of the x86 software instructions into a functionally equivalent but simpler set of ones and zeros for our hardware chip to decode and execute. The technology involved in Code Morphing software is similar to that used in advanced compilers, but with the input being binary programs rather than high-level language source code. Code Morphing software translates small groups of instructions incrementally, on an as-needed basis. Because of the incremental approach, the Code Morphing process happens so quickly that it is not detectable to the end user. Once a group of instructions is translated, those translated instructions are cached for successive executions without the need for further translation. Since instructions in an application often execute millions of times or more, performance costs associated with translation are quickly amortized. Code Morphing software constantly monitors the programs a user is running in order to re-optimize the operation of the program sections so that they run on the Crusoe microprocessor with the lowest possible power consumption and highest possible performance.

- VERY LONG INSTRUCTION WORD (VLIW) PROCESSOR HARDWARE. The hardware component of our Crusoe microprocessors is a VLIW processor. The VLIW hardware chip is responsible for basic arithmetic computation, and the control and caching functions. Our VLIW chip currently supports both 128-bit and 64-bit wide instructions. Each of these wide instructions can control multiple functional units in parallel for high performance under software control. For example, a single 128-bit VLIW instruction might simultaneously control an integer addition, an integer subtraction, a memory load and a branch. Our microprocessors currently employ a number of advanced features, such as 64 integer registers and 32 floating point registers. Crusoe microprocessors have relatively large Level 1 instruction caches and large Level 1 data caches. Our high-end Crusoe microprocessors also contain on-chip Level 2 caches that improve performance by reducing average memory latencies, and also help reduce power by decreasing the number of power-burning memory accesses to DRAM.

- INTEGRATED NORTHBRIDGE CHIPSET. Because we have moved many traditional chip functions from hardware into software, the basic VLIW processor requires a relatively small chip area. This provides the opportunity to integrate a full PCI bus controller, an SDRAM memory interface, and, on some Crusoe microprocessors, a DDR SDRAM memory interface. These functions have been traditionally provided in a second chip, called a northbridge. Crusoe microprocessors integrate this northbridge functionality onto the same silicon die as the processor. This increased level of integration reduces both power requirements and motherboard area, critical resources in small mobile devices.

- LONGRUN POWER MANAGEMENT. Our proprietary LongRun technology is enabled by the monitoring and optimization capabilities of Code Morphing software. LongRun monitors levels of user activity to determine how much performance is actually needed. Our VLIW chip has special purpose hardware that allows LongRun to rapidly adjust the frequency and voltage of the VLIW silicon chip to a variety of levels to closely match the needed level of performance. Reducing frequency and voltage can have substantial effects on the power consumed by the Crusoe microprocessor, which in turn leads to longer battery life.

The following diagram illustrates how applications and operating systems run on top of our Crusoe microprocessor:

graph

PC DESIGN EXPERTISE. We design and build fully functional PC-compatible computer systems based on our Crusoe microprocessors, in order to test our Crusoe microprocessors in a real system environment and to provide working reference designs. By providing schematics, motherboard layout and extensive design notes, we can help our customers save time to market. We have a systems engineering department that has already completed reference designs suitable for use in notebook computers, mobile Internet appliances and residential gateway systems. We also use these systems for many in-house purposes, such as testing new Code Morphing software, testing BIOS software, benchmarking and compatibility testing. We also take an active role in helping our customers debug and optimize the design of their platforms for longest battery life and best performance.

BIOS DEVELOPMENT. The BIOS, or Basic Input/Output Software, is usually the lowest level of software and the first software to execute x86 instructions in a PC. The BIOS controls low-level hardware functions, set-up of peripheral devices, some power management functions and a host of miscellaneous system housekeeping operations. Different BIOS code is needed for each unique motherboard and microprocessor combination, for Crusoe and other microprocessors as well, in order to make each of the components in the computer system work properly together. Knowing how to make changes to the BIOS requires detailed expertise about the individual motherboard and microprocessor characteristics. Our team of BIOS experts works with BIOS providers and customers to customize their BIOS code to the Crusoe microprocessor, Crusoe power management features and particular motherboard features. We then provide these changes back to the BIOS providers, so that they can provide Crusoe-supported BIOS ports to the computer manufacturers. This enables the

computer manufacturer to save many months of time and substantial expense compared to doing a BIOS port on its own. In addition, our BIOS staff also assists our customers in the power-on and bring-up of new products.

POWER MANAGEMENT EXPERTISE. Power management in a computer system requires substantial technical expertise. We have developed tools, methodologies and techniques that allow us to provide power management expertise to our customers. This expertise in power management is used to tune the computer system for the longest possible battery life.

THERMAL MANAGEMENT EXPERTISE. Electronic devices operating in a closed box can generate excessive heat if not managed carefully. We use our expertise in thermal management to advise our customers about thermal solutions for their notebook and other Crusoe-based computers. Our chips incorporate thermal sensors, which can be used in conjunction with a Crusoe BIOS port and Code Morphing software to allow the Crusoe microprocessor to operate at the peak performance allowed by the thermal solution of the computer system. We use advanced software computer aided design tools to do thermal modeling of individual computer systems to assure our customers that Crusoe will work reliably in their systems. Our goal is to help our customers avoid the use of fans. Eliminating fans can reduce noise and, by decreasing power usage, increase battery life.

MICROSOFT WINDOWS SUPPORT. We expect most notebook computers using Crusoe to run a version of the Microsoft Windows operating system. We have established a working relationship with Microsoft. Microsoft meets most of the operating system needs of computer manufacturers directly. Transmeta occasionally provides expertise for special software, such as "device drivers," that allow Windows or the BIOS to communicate with Crusoe. For example, we have provided our customers with a special device driver that allows them to use a graphical user interface to control our LongRun power management. We also work with Microsoft and computer manufacturers in testing Crusoe and customer platforms using Microsoft's Windows Hardware Quality Lab tests.

MOBILE LINUX. Particularly for Internet appliances, we find that our potential customers desire customized versions of the Linux operating system. We have substantial expertise in the Linux operating system. Linus Torvalds, the creator of Linux, and several other well-known contributors to Linux and Linux standards are employees of Transmeta. We use this expertise to work with our customers to port, customize and otherwise provide enhancements to Linux that work with the different Crusoe-powered Internet appliance devices that our customers are designing. We have developed a customized version of Linux, called Mobile Linux, that enhances the Linux operating system to add power management functions, to operate without a hard disk drive and to use a compressed file system, so that programs can be stored more efficiently in FLASH ROM memory. Following the open source model, we intend to release our changes for the Mobile Linux source code to the Linux community.

COMPATIBILITY TESTING. We have invested substantial resources in developing tools, expertise and test environments for compatibility testing. We test compatibility across three major areas: x86 compatibility, hardware compatibility, and full operating system and application compatibility. To test Crusoe microprocessors for compatibility with the x86 instruction set, we have purchased substantial

microprocessor test suites, and had teams of programmers write individual compatibility test programs. We have also purchased and built computer programs that automatically generate further compatibility tests. For hardware interface compatibility, we test Crusoe's PCI interface for compatibility with the industry-standard definitions for PCI. We test Crusoe's ability to communicate with standard components, such as graphics chips, southbridge chips and PCMCIA controller chips, that communicate with the PCI bus. We test a variety of SDRAMs and DDR SDRAMs to ensure functionality with Crusoe hardware. We also test other components on the motherboard, such as power supply chips and clock generator chips are also tested to make sure that they work with Crusoe. We have established a systems compatibility test laboratory that tests approximately 30 different PC operating systems and hundreds of different PC applications with Crusoe.

INTERNAL MICROPROCESSOR DEVELOPMENT SOFTWARE TOOLS. We have developed a set of software tools including a C Compiler, a C++ Compiler, an assembler, a linker, a loader and various advanced debugging tools that give us a unique view into the execution of both Code Morphing software and translated user programs. This capability allows us to isolate bugs quickly in x86 code and watch the real-time operation of programs so that we can tune them for better performance and lower power characteristics. These tools also have proven valuable in bringing up new hardware systems with our customers because, even before the first x86 instruction is executed, Code Morphing software has already executed millions of instructions that can assist in probing different sections of the system.

Products and Products Under Development

In January 2000, we introduced our Crusoe family of microprocessors. We expect to use the name Crusoe to represent current and future products, and to use this single brand name to represent characteristics of long battery life, x86 PC software compatibility and high performance. The different microprocessor models in the Crusoe family offer different levels of performance and different cost structures. We have found that the marketplace divides Mobile Internet Computing into two distinct markets: notebook computers and Internet appliances. Notebook computers usually run a version of the Microsoft Windows operating system. This market demands higher performance, longer battery life and x86 compatibility and is less price sensitive than the Internet appliance market. To address the notebook computer market, we have developed the TM5000 series of Crusoe microprocessors. In the market for Internet appliances, compatibility with the x86 instruction set is important, but cost can take a higher level of importance. We have seen a growing interest in the Linux operating system for this market. To address the Internet appliance market we have developed the TM3000 series of Crusoe microprocessors.

The table below shows a comparison of many of the key features and differences of six different Crusoe microprocessors in our product roadmap, three of which are currently in production, and three of which we expect to introduce by the first half of 2001. The features of products not yet in production are subject to change.

	TM3X00 SERIES FOR INTERNET APPLIANCES			TM5X00 SERIES FOR NOTEBOOK COMPUTERS	

	TM3200	TM3300	TM3400	TM5400	TM5600	TM5800
Typical maximum MHz range.....	400	400	400 - 500	500 - 700	600 - 800	600 - 1000
Instruction compatibility.....	x86	x86	x86	x86	x86	x86
Level 1 data cache.....	32 KB	64 KB	64 KB	64 KB	64 KB	64 KB
Level 1 instruction cache.....	64 KB	64 KB	64 KB	64 KB	64 KB	64 KB
Private data memory.....	4 KB	8 KB	8 KB	8 KB	8 KB	8 KB
Private instruction memory....	8 KB	8 KB	8 KB	8 KB	8 KB	8 KB
Level 2 combined I/D cache....	none	none	256 KB	256 KB	512 KB	512 KB - 1 MB
PCI bus interface.....	Yes	Yes	Yes	Yes	Yes	Yes
SDR SDRAM controller.....	Yes	Yes	Yes	Yes	Yes	Yes
DDR SDRAM controller.....	No	No	No	Yes	Yes	Yes
Standard PC power management..	Yes	Yes	Yes	Yes	Yes	Yes
LongRun power management.....	No	No	Yes	Yes	Yes	Yes
VLIW full instruction length.....	128-bits	128-bits	128-bits	128-bits	128-bits	128-bits
Number of integer registers...	64	64	64	64	64	64
Number of floating point registers.....	32	32	32	32	32	32
Package type and pins.....	474 CBGA	360 CBGA	360 CBGA	474 CBGA	474 CBGA	474 CBGA
CMOS technology rules.....	.22 micron	.18 micron	.18 micron	.18 micron	.18 micron	.13 micron
Production status.....	Now	First half of 2001	First half of 2001	Now	Now	First half of 2001

TM3X00 SERIES FOR INTERNET APPLIANCES. The TM3200 is a Crusoe microprocessor intended for Internet appliance computers running the Linux operating system. This microprocessor is composed of Transmeta's Code Morphing software and a 128-bit VLIW chip. The VLIW chip runs at up to 400 MHz, contains a processing engine capable of executing up to four basic operations every clock cycle, and has a 64 KB Level 1 instruction cache and a 32 KB Level 1 data cache. In addition to the basic processor, the TM3200 also contains a PCI bus interface and a SDR SDRAM controller. These latter two functions, often referred to as a northbridge, are integrated directly onto the Crusoe microprocessor.

The TM3200 is produced using .22 micron CMOS technology. For the TM3300 and TM3400 microprocessor, we have redesigned the parts to move from a .22 micron technology into a .18 micron CMOS technology. We expect these products to be available in the first half of 2001. We expect this technology shrink to improve operating frequency, reduce power consumption and reduce costs.

TM5X00 SERIES FOR NOTEBOOK COMPUTERS. The TM5400 is a high performance Crusoe microprocessor intended for notebook computers running the Windows operating system. This microprocessor is composed of Transmeta's Code Morphing software and a 128-bit VLIW microprocessor. The TM5400 is a superset of the TM3200, and has an increased Level 1 data cache of 64 KB. The TM5400 added a number of new features such as a 256 KB Level 2 cache, LongRun power management and a DDR DRAM controller. The TM5400 is produced using .18 micron CMOS technology.

In May 2000, we began sampling the TM5600 Crusoe microprocessor to our customers. The TM5600 is similar to the TM5400, but has an increased Level 2 cache of 512 KB. The increased Level 2 cache improves the performance and reduces the power consumption of the TM5600 relative to the TM5400. The TM5600 is produced using .18 micron CMOS technology.

As yields improve and customer performance demands increase, we expect to introduce the TM5800 Crusoe microprocessor. We expect that this microprocessor may have increased Level 2 cache of up to 1 MB, and use more advanced semiconductor technology, moving to a .13 micron CMOS technology as soon as it is available during 2001.

Customers

We have manufactured limited quantities of our products for evaluation purposes but, to date, have not shipped our products in volume. We expect to sell our microprocessor products primarily to end manufacturers of computer equipment.

We anticipate that a relatively small number of customers will account for a substantial percentage of our revenue. In addition, we expect to sell a significant portion of our products to customers overseas. Because many notebook computer companies manufacture their products through subcontractors located in Asia, we expect that a majority of our revenue will be derived from customers in that region. All of our sales to date have been denominated in U.S. dollars.

Sales and Marketing

We market and sell our products through a variety of channels, including a direct sales force, sales representatives and distributors. A marketing staff supports our sales effort. We have opened an office in Taiwan to provide sales and customer support. We also expect to sell our products in Asia through distributors. In addition, we have field applications engineers who will work directly with our customers.

We expect to dedicate sales managers to principal customers to promote close cooperation and communication. We work with our potential customers to select, integrate and tune hardware and software system components that make up the final computer system. We also provide our potential customers with reference platform designs, which we believe will enable our customers to achieve easier and faster transitions from the initial prototype designs through final production releases. We believe these reference platform designs also will enhance our targeted customers' confidence that our products will meet their market requirements and product introduction schedules.

Manufacturing

We use IBM for wafer fabrification. By subcontracting our manufacturing, we focus our resources on product design and eliminate the high cost of owning and operating a semiconductor fabrication facility. This fabless business model also allows us to take advantage of the research and development efforts of manufacturers, and permits us to work with those manufacturers that offer the most advanced manufacturing processes and competitive prices.

IBM, at its manufacturing plant in Vermont, has manufactured all of our products to date. We have entered into a manufacturing agreement with IBM, which expires no sooner than December 30, 2003. However, the contract does not guarantee any level of production capacity or any particular price. Any inability of IBM to provide the necessary capacity or output could result in significant production delays. Under some circumstances, IBM may allocate its available capacity to its other customers. If IBM suffers any damage to its facility, or there is any other disruption of its manufacturing capacity, we may not be able to qualify alternative manufacturing sources for our products in a timely manner. We are considering qualifying one or more other companies to also fabricate wafers for us.

Our designs are compatible with industry-standard CMOS manufacturing processes. We believe this compatibility will permit us to qualify additional manufacturers to mitigate the risk of using a single source for a product. Our products are now primarily fabricated using .18 micron process technologies. We continuously evaluate the benefits, on a product by product basis, of migrating to a smaller geometry process technology to reduce costs and increase the performance of our microprocessors.

IBM also performs the initial testing of the silicon wafers that contain our microprocessors. After initial testing, the silicon wafers are cut into individual semiconductors and assembled into packages. All testing is performed on standard test equipment using proprietary test programs developed by our test engineering group. We periodically audit our test facilities to ensure that their procedures remain consistent with those required for the production of our products. We rely upon IBM, at a site located in Canada, to assemble and test substantially all of our products. This reliance on IBM could result in product shortages or delays in the future. If these shortages or delays were significant, our customers might seek alternative sources of supply, which could harm our operating results and reputation.

We participate in quality and reliability monitoring through each stage of the production cycle by reviewing data from our wafer fabrication plant and assembly subcontractor. We closely monitor wafer fabrication plant production to enhance product quality and reliability and yield levels.

Competition

The market for microprocessors is intensely competitive, rapidly evolving and subject to rapid technological change. We believe that competition will become more intense in the future and may cause price reductions, reduced gross margins and loss of market share, any one of which could significantly reduce our future revenue or any income. Significant competitors that offer microprocessors for the notebook computer market include Advanced Micro Devices and Intel.

Significant competitors that offer microprocessors for the Internet appliance market include manufacturers of RISC microprocessors such as licensees of ARM technology and licensees of MIPS technology. In addition, we face competition from providers of x86 compatible microprocessors for the Internet appliance market, including National Semiconductor.

We compete on the basis of a variety of factors, including:

- technical innovation;

- performance of our products, including their power usage, product system compatibility, speed, reliability and density;

- product price;

- product availability;

- reputation and branding; and - technical support.

Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, product development and marketing resources, greater name recognition and larger customer bases than we do. Many of our competitors also have significant influence in the industry. We may not be able to compete effectively against current and potential competitors, especially those with significantly greater resources and market leverage.

Intellectual Property

Our success depends in part upon our ability to maintain the proprietary aspects of our technology and to operate without infringing the proprietary rights of others. We rely on a combination of patents, copyrights, trademarks, trade secret laws and contractual restrictions on disclosure to protect our intellectual property rights. We have six U.S. patents with expiration dates ranging from 2016 to 2017. Our patents principally cover microprocessors, software, components for microprocessors and systems including microprocessors. We have applied for 29 additional U.S. patents and have filed foreign patent applications based on our U.S. patents and patent applications. It is possible that no patents will issue from our pending patent applications. Even if additional patents are issued, taken together with our existing patents, they may not provide sufficiently broad protection to protect our proprietary rights. We hold a number of trademarks, including Transmeta, Crusoe, LongRun and Code Morphing.

Legal protections afford only limited protection for our technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. In addition, leading companies in the semiconductor industry have extensive portfolios with respect to semiconductor technology. From time to time, third parties, including these leading companies, may assert exclusive patent, copyright, trademark and other intellectual property rights to technologies and related methods that are important to us. Litigation

may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of our proprietary rights or the rights, of others or to defend against claims of infringement or invalidity.

Employees

At August 15, 2000, we and our subsidiaries employed 313 people in the United States and Taiwan. Of these employees, 218 were engaged in research and development, 38 were engaged in sales and marketing, 27 were engaged in professional services and technical support and 30 were engaged in finance and other administrative departments.

Seven of our employees are located in Asia. In addition, at June 30, 2000, 24 people in the United States, Japan and Europe worked for us on a contract basis. None of our employees is subject to any collective bargaining agreements. We believe our employee relations are good.

Facilities

We lease a total of approximately 137,475 square feet of office space in five buildings in a business park complex located in Santa Clara, California. We lease space in these buildings under four separate leases and one sublease, four of which expire in June 2008 and one of which expires in July 2001. We sublease a total of approximately 49,680 square feet of office space in two of the buildings to three different subtenants. These subleases expire between September 2001 and July 2002. We also lease office space in Taiwan to support our sales and marketing personnel worldwide. We intend to expand our operations significantly and therefore may discontinue subleasing space and may require additional facilities in the future.

Legal Proceedings

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. We are not currently involved in any material legal proceedings.

Management

Executive Officers and Directors

The following table shows information concerning our executive officers and directors. Ages are as of June 30, 2000.

Name Age Position

David R. Ditzel	43	Director and Chief Executive Officer
Mark K. Allen	45	Director, President and Chief Operating Officer
James N. Chapman	51	Senior Vice President of Sales and Marketing
Douglas A. Laird	44	Senior Vice President of Product Development
Merle A. McClendon	44	Chief Financial Officer and Secretary
David P. Jensen	52	Vice President of Operations
Barry L. Rubinson	55	Vice President of Software
John O. Horsley	39	General Counsel
Murray A. Goldman	62	Chairman of the Board of Directors
R. Hugh Barnes	54	Director
Paul M. McNulty	38	Director
William P. Tai	38	Director
T. Peter Thomas	53	Director

David R. Ditzel is a co-founder of Transmeta. Mr. Ditzel has served as Chief Executive Officer and a director of Transmeta since March 1995. From March 1995 to January 2000, Mr. Ditzel served as President and, from March 1995 to November 1998, Mr. Ditzel served as Vice President of Engineering of Transmeta. From 1987 to 1995, Mr. Ditzel was employed at Sun Microsystems, where he held a variety of positions, most recently as Director of SPARC Labs and Chief Technical Officer of the Microelectronics division. From 1978 to 1987, Mr. Ditzel was employed at AT&T Bell Laboratories, where he was a Member of Technical Staff. Mr. Ditzel holds a B.S. in electrical engineering and a B.S. in computer science from Iowa State University. Mr. Ditzel also holds an M.S. in electrical engineering and computer science from the University of California at Berkeley.

Mark K. Allen has served as President, Chief Operating Officer and a director of Transmeta since January 2000. From October 1998 to November 1999, Mr. Allen served as Vice President of Operations of NVIDIA, Inc., a designer and developer of 3D graphics processors, graphics processing units and related software for semiconductor companies focusing on graphics chips. From February 1995 to October 1998, Mr. Allen served as Senior Vice President of Operations for C-Cube Microsystems, a digital video technology company. From March 1987 to February 1993, Mr. Allen served as Vice President of Worldwide Manufacturing Operations for Cypress Semiconductor, a manufacturer and supplier of integrated circuits. Mr. Allen holds a B.S. in electrical engineering from Purdue University.

James N. Chapman has served as Senior Vice President of Sales and Marketing of Transmeta since February 2000. Prior to that, he served as Vice President of Sales and Marketing from November 1998 to January 2000 and Vice President of Sales from August 1997 to November 1998. Mr. Chapman joined Cyrix Corporation, a semiconductor company, in November 1991 and served as Vice President of Sales and Marketing for Cyrix from October 1993 to August 1996. From April 1981 to October 1991, Mr. Chapman was employed at Intel, where he held a variety of positions, most recently as Director of Marketing for the Entry-Level Products Group. Mr. Chapman attended the University of Illinois.

Douglas A. Laird is a co-founder of Transmeta. Mr. Laird has served as the Senior Vice President of Product Development of Transmeta since February 2000. Prior to that, he served as Vice President of Product Development from November 1998 to January 2000, and as Vice President of VLSI

Engineering from October 1995 to November 1998. From 1992 to March 1995, Mr. Laird was employed at Sun Microsystems, where he held a variety of positions, most recently as Manager of Advanced Development. Before joining Sun, Mr. Laird was employed by LSI Logic, where he held a variety of positions, most recently as Manager of SPARC Development. He holds a B.S. in electrical engineering from the Rochester Institute of Technology and an M.S. in computer science from Santa Clara University.

Merle A. McClendon has served as Chief Financial Officer and Secretary of Transmeta since March 2000. From January 1997 to March 2000, Ms. McClendon served as Vice President of Finance and Chief Financial Officer for NeoMagic, a supplier of multimedia accelerators for notebooks. From March 1993 to January 1997, Ms. McClendon served as Vice President and Corporate Controller at S3 Incorporated, a semiconductor company. From November 1980 to March 1993, Ms. McClendon was employed by Deloitte & Touche, most recently as a Senior Manager. Ms. McClendon is a Certified Public Accountant and holds a B.S. in business administration from San Jose State University.

David P. Jensen has served as Vice President of Operations of Transmeta since February 2000. From January 1999 to January 2000, Mr. Jensen served as Director of Foundry Operations at NVIDIA, Inc. From 1983 to January 1999, Mr. Jensen was employed at National Semiconductor Corp., where he held a variety of positions, most recently as Senior Product Engineering Manager. Mr. Jensen holds a B.S. in mechanical engineering and a B.S. in aeronautical engineering from California Polytechnic State University.

Barry L. Rubinson has served as Vice President of Software of Transmeta since August 2000. From August 1999 to July 2000, Mr. Rubinson was employed at AltaVista, an Internet search services company, where he held a variety of positions, most recently as Vice President of Engineering and then as Chief Technology Officer of the AltaVista search division. From June 1998 to August 1999, Mr. Rubinson was employed at Compaq Computer, a computer manufacturer company, as Vice President of Engineering. From April 1974 until June, 1998, Mr. Rubinson was employed at Digital Equipment Corporation, a computer manufacturer company, where he held a variety of positions, most recently as Corporate Consulting Engineer. Mr. Rubinson holds a B.S. in Management Science and an M.S. in Computer Engineering from Case Western Reserve University.

John O. Horsley has served as General Counsel of Transmeta since July 2000. From November 1997 to July 2000, Mr. Horsley served at the Federal Trade Commission in appointed positions within the Bureau of Competition, most recently as Chief Counsel for Intellectual Property and Technology Matters. From October 1988 to October 1997, Mr. Horsley practiced law as an associate and partner with Pillsbury Madison & Sutro, where he specialized in litigation and strategic counseling in intellectual property, antitrust and securities law matters. Mr. Horsley holds a B.A. in Philosophy and a B.A. in English from the University of Utah, and a J.D. from the University of California at Berkeley.

Murray A. Goldman has served as Chairman of the Board of Directors of Transmeta since November 1998. Dr. Goldman served as a business advisor to Transmeta from March 1997 to November 1998. From July 1969 to January 1997, Dr. Goldman was employed at Motorola, where he held a variety of positions, most recently as Executive Vice President and Assistant General Manager of the

Semiconductor Products Sector. Dr. Goldman also serves on the board of directors of ZiLOG, Inc., a semiconductor company, as well as several privately held companies. Dr. Goldman holds a B.S. in electrical engineering from the University of Pittsburgh and an M.S. and Ph.D. in electrical engineering from New York University.

R. Hugh Barnes has served as a director of Transmeta since November 1998. Mr. Barnes served as a business advisor to Transmeta from March 1997 to November 1998. From April 1984 to January 1997, Mr. Barnes was employed at Compaq Computer, where he held a variety of positions, most recently as Vice President and Chief Technical Officer. Mr. Barnes also serves on the boards of directors of several privately held companies. Mr. Barnes holds a B.S. in electrical engineering from Iowa State University.

Paul M. McNulty has served as a director of Transmeta since July 1999. Since September 1999, Mr. McNulty has served as President and Managing Member of Five Points Capital, Inc., a hedge fund. From January 1996 to August 1999, Mr. McNulty served as Managing Director at Soros Fund Management. From January 1993 to December 1995, Mr. McNulty served as the sector analyst responsible for technology stocks at Soros Fund Management. Mr. McNulty also serves on the boards of directors of several privately held companies. Mr. McNulty holds an A.B. in Fine Arts from Harvard College and an M.B.A. from Stanford University.

William P. Tai has served as a director of Transmeta since December 1995. Since July 1997, Mr. Tai has served as a general partner and managing director of Institutional Venture Partners, a venture capital firm. From August 1995 to February 1998, he served as founding Chief Executive Officer of iAsiaWorks, Inc., a pan-Asia Internet services provider. He also served as Chairman of the Board of iAsiaWorks from August 1995 to August 1999. From August 1991 to July 1997, Mr. Tai was affiliated with Walden Group of Venture Capital Funds, a venture capital firm. Mr. Tai also serves on the board of directors of iAsia Works, Microtune, a provider of broadband RF silicon, and Netergy Networks, a provider of IP telephony solutions, as well as several privately held companies. Mr. Tai holds a B.S. in electrical engineering with honors from the University of Illinois and an M.B.A. from the Harvard Graduate School of Business.

T. Peter Thomas has served as a director of Transmeta since December 1995. Since November 1985, Mr. Thomas has served as a general partner of Institutional Venture Partners. Mr. Thomas serves on the boards of directors of Atmel Corp. and Telcom Semiconductor, as well as several privately held companies. Mr. Thomas holds a B.S. in electrical engineering from Utah State University and an M.S. in computer science from Santa Clara University.

Each officer serves at the discretion of our board of directors. Each of our officers and directors, other than nonemployee directors, devotes his or her full time to our affairs. Our nonemployee directors devote the amount of time necessary to discharge their duties to us. There are no family relationships among any of our directors or officers.

Board of Directors

Our bylaws currently provide for a board of directors consisting of seven persons. All directors hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified. Our current directors were elected pursuant to a voting agreement that we entered into with some of our principal stockholders. The holders of our Series B preferred stock and Series C preferred stock, voting together, designated Messrs. Tai and Thomas for election to our board. Quantum Industrial Partners LDC, one of the holders of our Series F preferred stock, designated Mr. McNulty for election to our board. Upon the closing of this offering, these board representation rights will terminate and no stockholders will have any special rights with respect to board representation.

The term of each of our current directors will expire at the next annual meeting of stockholders. Our board will be divided into three classes, serving staggered three-year terms: Class I, whose term will expire at the first annual meeting of stockholders following this offering; Class II, whose term will expire at the second annual meeting of stockholders following this offering; and Class III, whose term will expire at the third annual meeting of stockholders following this offering. As a result, only one class of directors will be elected at each annual meeting of stockholders, with the other classes continuing for the remainder of their respective terms. Messrs. Barnes and Tai have been designated as Class I directors; Messrs. Ditzel, Goldman and Thomas have been designated as Class II directors; and Messrs. Allen and McNulty have been designated as Class III directors.

Board Committees

The audit committee consists of Messrs. McNulty, Tai and Thomas. The audit committee:

- reviews our financial statements and accounting practices;

- reviews and recommends to our board the selection of independent auditors; and - reviews the results and scope of the audit and other services provided by our independent auditors.

The compensation committee consists of Messrs. Barnes and Thomas. The compensation committee:

- reviews and recommends to our board the compensation and benefits of all of our officers and directors; and - reviews general policy relating to compensation and benefits.

Our board currently administers the issuance of stock options and other awards under our 1997 Equity Incentive Plan. Our board has delegated to Mr. Ditzel the non-exclusive authority to grant common stock options under our 1997 Equity Incentive Plan, subject to certain restrictions, until such time as the board revokes its delegation of authority.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee has at any time been an officer or employee of Transmeta. None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board or compensation committee.

Director Compensation

Mr. Goldman, the chairman of our board of directors, is paid an annual base salary of $150,000. Other than Mr. Goldman, our directors are not compensated for their services as directors other than reimbursement for travel expenses related to board meeting attendance and the grant of stock options. Directors have been eligible to participate in our 1997 Equity Incentive Plan.

In December 1997, we granted Mr. Tai a nonqualified option to purchase 60,000 shares of our common stock at an exercise price of $.25 per share. In July 1998, Mr. Tai exercised this option in full. Mr. Tai's shares are fully vested. In July 1997, June 1998, November 1998 and March 1999, we granted Mr. Goldman nonqualified options to purchase 40,000, 40,000, 150,000 and 250,000 shares of our common stock at exercise prices of $.25, $1.00, $1.30 and $1.30 per share. In December 1998, March 1999 and February 2000, Mr. Goldman exercised these options in full. The shares received upon exercise vest over periods of either three years and nine months or four years. As of June 30, 2000, 243,129 of the shares issued to Mr. Goldman were unvested and subject to repurchase by us upon termination of Mr. Goldman's service to us. In July 1997 and November 1998, we granted Mr. Barnes nonqualified options to purchase 40,000 and 60,000 shares of our common stock at exercise prices of $.25 and $1.30 per share, respectively. In December 1998 and June 1999, Mr. Barnes exercised these options in full. The shares received upon exercise vest over periods of either three years and nine months or four years. As of June 30, 2000, 43,752 of the shares issued to Mr. Barnes were unvested and subject to repurchase by us upon termination of Mr. Barnes's service to us.

Each director will be eligible to participate in our 2000 Equity Incentive Plan. Under this plan, option grants to directors who are not our employees, or employees of a parent or subsidiary of ours, will be automatic and non-discretionary. Each non-employee director who is a member of our board of directors before the date of this offering and who has not received a prior option grant will receive an option to purchase shares of our common stock effective upon the offering. Each non-employee director who becomes a member of our board of directors on or after the date of this offering will be granted an option to purchase shares of our common stock as of the date that director joins the board. Immediately after each annual meeting of our stockholders, each non-employee director will automatically be granted an additional option to purchase shares of our common stock; provided, that the non-employee director is a member of the Board of Directors on such date and has served continuously as a member of the Board of Directors for a period of at least twelve months since the last option grant to such non-employee director. If less than twelve months has passed, then the number of

shares subject to the option granted after the annual meeting will be equal to multiplied by a fraction, the numerator of which is the number of days that have elapsed since the last option grant to that director and the denominator of which is 365 days.

Each option will have an exercise price equal to the fair market value of our common stock on the date of grant. The options will have ten-year terms and will terminate three months after the date the director ceases to be a director or consultant or twelve months if the termination is due to death or disability. All options granted to non-employee directors will vest over a four-year period at a rate of 25% of the total shares granted on the first anniversary of the date of grant, and 2.08333% of the total shares granted at the end of each full succeeding month thereafter, so long as the non-employee director continuously remains our director or consultant. In the event of our dissolution or liquidation or a "change in control" transaction, options granted to our non-employee directors under the plan will become 100% vested and exercisable in full.

Executive Compensation

The following table presents information regarding the compensation awarded to, earned by or paid to our chief executive officer and each of our other executive officers at December 31, 1999 whose salary and bonus for 1999 equaled or exceeded $100,000.

	ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS
NAME AND PRINCIPAL POSITION	SALARY	BONUS	SHARES OF COMMON STOCK UNDERLYING OPTIONS
David R. Ditzel Chief Executive Officer	$170,615	$110,554	250,000
James N. Chapman Senior Vice President of Sales and Marketing	155,907	73,889	250,000
Douglas A. Laird Senior Vice President of Engineering	154,364	74,564	250,000
Daniel E. Steimle(1) Former Chief Financial Officer	155,349	76,589	250,000

(1) Mr. Steimle's employment with us terminated as of March 15, 2000.

Mark K. Allen, our President and Chief Operating Officer, was hired in January 2000 at an annual base salary of $233,000. Merle A. McClendon, our Chief Financial Officer and Secretary, was hired in March 2000 at an annual base salary of $210,000. David P. Jensen, our Vice President of Operations, was hired in February 2000 at an annual base salary of $170,000. John O. Horsley, our General Counsel, was hired in July 2000 at an annual base salary of $155,000. Barry L. Rubinson, our Vice President of Software, was hired in August 2000 at an annual base salary of $200,000.

Option Grants in Last Year

The following table presents information about grants of stock options during 1999 to the executive officers listed in the above summary compensation table during 1999.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
NAME	SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE	EXPIRATION DATE	5%	10%
David R. Ditzel.....	250,000	6.2%	$1.30	3/18/2009		
James N. Chapman.....	250,000	6.2	1.30	3/18/2009		
Douglas A. Laird.....	250,000	6.2	1.30	3/18/2009		
Daniel E. Steimle.....	250,000	6.2	1.30	11/22/2008		

In 1999, we granted to our employees options to purchase a total of 4,033,500 shares of common stock.

Potential realizable values are calculated by:

- multiplying the number of shares of common stock subject to a given option by $, which is the assumed initial public offering price;

- assuming that the amount derived from that calculation compounds at the annual 5% or 10% rates shown in the table for the entire ten-year term of the option; and - subtracting from that result the aggregate option exercise price.

The 5% and 10% assumed annual rates of stock price appreciation are required by the rules of the Securities and Exchange Commission and do not reflect our estimate or projection of future stock price growth.

The options granted to Messrs. Ditzel, Chapman and Laird in 1999 were immediately exercisable nonqualified stock options and were exercised prior to December 31, 1999. We retain the right to repurchase at cost any shares that remain unvested at the time the officer ceases to be employed by us. Our right of repurchase lapses with respect to 20% of the shares after one year, 2% of the shares each month during the second year and 2.333% of the shares each month during the third and fourth years. The option granted to Mr. Steimle in 1999 was an immediately exercisable nonqualified stock option and was exercised prior to December 31, 1999. The shares issued upon exercise of this option were subject to our right of repurchase, which lapsed with respect to 25% of the shares after one year and 2.083% of the shares each month thereafter.

In addition, during 2000, we have granted options to purchase shares of common stock to the following executive officers: In January 2000, we granted Mark K. Allen an option to purchase 1,000,000 shares with an exercise price of $6.00 per share. In March 2000, we granted David P. Jensen an option to purchase 275,000 shares with an exercise price of $7.25 per share. In July 2000, we granted Merle A. McClendon an option to purchase 550,000 shares with an exercise price of $12.00 per share and we granted John O. Horsley an option to purchase 60,000 shares with an exercise price of

$12.00 per share. The options granted to Mr. Allen, Mr. Jensen, Ms. McClendon and Mr. Horsley are immediately exercisable nonqualified stock options, but the shares issued upon exercise are subject to our right of repurchase, which lapses with respect to 25% of the shares after one year and 2.083% of the shares each month thereafter. Mr. Allen's option is also subject to accelerated vesting upon a change in control of our company.

The options discussed in this section expire ten years from the date of grant. They were granted at an exercise price equal to the fair market value of our common stock as determined by our board on the date of grant.

Aggregated Option Exercises in 1999

The following table presents the number of shares acquired and the value realized upon exercise of stock options during 1999 by the executive officers listed in the above summary compensation table. None of these executive officers holds any unexercised options.

Number of Shares Name Acquired on Exercise Value Realized

David R. Ditzel.....	250,000	$ --
James N. Chapman.....	250,000	--
Douglas A. Laird.....	250,000	--
Daniel E. Steimle(1).....	250,000	--

(1) 170,000 of the 250,000 shares granted to Mr. Steimle in 1999 were repurchased by us on March 15, 2000 when Mr. Steimle's employment with us terminated.

In January 2000, Mark K. Allen exercised his option to purchase 1,000,000 shares of common stock. In March 2000, David P. Jensen exercised his option to purchase 275,000 shares of common stock. In August 2000, Merle A. McClendon exercised her option to purchase 550,000 shares of common stock. All of the shares issued to Mr. Allen, Mr. Jensen and Ms. McClendon upon exercise of their stock options are subject to repurchase by us upon termination of their employment. This repurchase right lapses over four years after the date of the option grant.

Change in Control Arrangement

Mr. Allen, our President and Chief Operating Officer, has purchased shares of common stock under an agreement that provides for accelerated vesting under specified circumstances following a change in control of Transmeta. Upon a change in control transaction followed within twelve months by a non-justified termination of Mr. Allen's employment or his resignation for good reason, vesting will accelerate as to 50% of any unvested portion of the 1,000,000 shares of common stock that he holds. Mr. Allen may be terminated with justification if he commits any willful act of material fraud or dishonesty or gross misconduct against Transmeta or its subsidiaries or is indicted or convicted for

certain felonies, or in the event of his death or disability. Mr. Allen may resign with good reason if, after a change of control, his salary is reduced, his workplace is relocated more than 50 miles away from his original workplace or his responsibilities are substantially changed.

Severance Agreements with Executive Officers

In March 2000, we entered into a severance agreement with Daniel E. Steimle, our former Chief Financial Officer. Mr. Steimle's employment with us terminated as of March 15, 2000. Under this agreement, Mr. Steimle received a severance payment of $110,000. We repurchased 318,960 shares of common stock for a price of $1.30 per share and Mr. Steimle's remaining 70,103 unvested shares will continue to vest until September 23, 2000. The agreement also provides for the extension until December 31, 2001 of the maturity date of two secured full recourse promissory notes with unpaid principal amounts of $163,852 and $104,000, together with interest compounded semi-annually on the unpaid principal at rates of 4.47% and 4.77%, which were issued by Mr. Steimle to exercise his options.

Employee Benefit Plans and Option Grants

1995 Equity Incentive Plan and 1997 Equity Incentive Plan

As of June 30, 2000, options to purchase 427,760 shares of our common stock were outstanding under our 1995 Equity Incentive Plan and no shares were available for future option grants. These options had a weighted average exercise price of $.08 per share. As of June 30, 2000, options to purchase 5,176,064 shares of our common stock were outstanding under our 1997 Equity Incentive Plan and 1,097,644 shares of our common stock remained available for future option grants. The options outstanding under the 1997 Equity Incentive Plan as of June 30, 2000 had a weighted average exercise price of $5.09 per share. In addition, in May 1998, we issued a total of 34,000 shares of common stock to 34 employees, under our 1997 Equity Incentive Plan. Our 2000 Equity Incentive Plan will become effective upon the date of this prospectus. No options will be granted under our 1997 Equity Incentive Plan after this offering. However, any outstanding options under our 1995 Equity Incentive Plan or 1997 Equity Incentive Plan will remain outstanding and subject to our 1995 Equity Incentive Plan or 1997 Equity Incentive Plan, as applicable, and related stock option agreements until they are exercised or until they terminate or expire by their terms. Options granted under our 1995 Equity Incentive Plan or 1997 Equity Incentive Plan are subject to terms substantially similar to those described below with respect to options granted under our 2000 Equity Incentive Plan.

Non-plan Grants

From November 1, 1998 through June 30, 2000, we granted options to purchase a total of 3,610,000 shares of our common stock, with a weighted average exercise price of $4.21 per share, to a number of our employees, including officers and directors, outside of any option plan. As of June 30, 2000, options to purchase a total of 3,010,000 shares had been exercised.

2000 Equity Incentive Plan

In 2000, our board adopted our 2000 Equity Incentive Plan, subject to stockholder approval. The 2000 Equity Incentive Plan will become effective on the date of this prospectus and will serve as the successor to our 1995 Equity Incentive Plan and 1997 Equity Incentive Plan. The 2000 Equity Incentive Plan authorizes the award of options, restricted stock and stock bonuses.

The 2000 Equity Incentive Plan will be administered by the compensation committee of our board of directors, each member of which is an outside director as defined under applicable federal tax laws. The compensation committee will have the authority to interpret this plan and any agreement entered into under the plan, grant awards and make all other determinations for the administration of the plan.

Our 2000 Equity Incentive Plan provides for the grant of both incentive stock options that qualify under Section 422 of the Internal Revenue Code and nonqualified stock options. The incentive stock options may be granted only to our employees or employees of any of our subsidiaries. The nonqualified stock options, and all awards other than incentive stock options, may be granted to our employees, officers, directors, consultants, independent contractors and advisors and those of any of our subsidiaries. However, consultants, independent contractors and advisors are only eligible to receive awards if they render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction. The exercise price of incentive stock options must be at least equal to the fair market value of our common stock on the date of grant. The exercise price of incentive stock options granted to 10% stockholders must be at least equal to 110% of the fair market value of our common stock on the date of grant.

The maximum term of the options granted under our 2000 Equity Incentive Plan is ten years. The awards granted under this plan may not be transferred in any manner other than by will or by the laws of descent and distribution and may be exercised during the lifetime of the optionee only by the optionee. The compensation committee may allow exceptions to this restriction for awards that are not incentive stock options. Options granted under our 2000 Equity Incentive Plan generally expire three months after the termination of the optionee's service to us or to a parent or subsidiary of ours, or twelve months if the termination is due to death or disability. In the event of a liquidation, dissolution or change in control transaction, except for options granted to non-employee directors, the options may be assumed or substituted by the successor company. Except for options granted to non-employee directors, in the event these options are not assumed or substituted, such options will expire on such transaction at such time and on such conditions as the compensation committee will determine.

We have reserved 3,500,000 shares of our common stock for issuance under the 2000 Equity Incentive Plan. The number of shares reserved for issuance under this plan will be increased by:

- the number of shares of our common stock reserved under our 1997 Equity Incentive Plan that are not issued or subject to outstanding grants on the date of this prospectus;

- the number of shares of our common stock issued under our 1997 Equity Incentive Plan that we repurchase at the original purchase price; and - the number of shares of our common stock issuable upon exercise of options granted under our 1997 Equity Incentive Plan that expire or become unexercisable at any time after this offering without having been exercised in full.

In addition, under the terms of the 2000 Equity Incentive Plan, the number of shares of our common stock reserved for issuance under the plan will increase automatically on January 1 of each year commencing in 2001 by an amount equal to 5% of our total outstanding shares of common stock as of the immediately preceding December 31.

Shares available for grant and issuance under our 2000 Equity Incentive Plan include:

- shares of our common stock issuable upon exercise of an option granted under the plan that is terminated or cancelled before the option is exercised;

- shares of our common stock issued upon exercise of any option granted under this plan that we repurchase at the original purchase price;

- shares of our common stock subject to awards granted under this plan that are forfeited or that we repurchase at the original issue price; and 51 - shares of our common stock subject to stock bonuses granted under this plan that otherwise terminate without shares being issued.

During any calendar year, no person will be eligible to receive more than 2,000,000 shares, or 3,000,000 shares in the case of a new employee, under the 2000 Equity Incentive Plan. The 2000 Equity Incentive Plan will terminate in , 2010, unless it is terminated earlier by our board.

2000 Employee Stock Purchase Plan

In 2000, our board adopted our 2000 Employee Stock Purchase Plan, subject to stockholder approval. The 2000 Employee Stock Purchase Plan will become effective on the first day on which price quotations are available for our common stock on the Nasdaq National Market. The employee stock purchase plan is designed to enable eligible employees to purchase shares of our common stock at a discount on a periodic basis.

Our compensation committee will administer the 2000 Employee Stock Purchase Plan. Our employees generally will be eligible to participate in this plan if they are employed by us, or a subsidiary of ours that we designate, for more than 20 hours per week and more than five months in a calendar year. Our employees are not eligible to participate in our 2000 Employee Stock Purchase Plan if they are 5% stockholders or would become 5% stockholders as a result of their participation in the plan. Under the 2000 Employee Stock Purchase Plan, eligible employees may acquire shares of our common stock

through payroll deductions (or through a single lump sum payment in the case of the first offering period). Our eligible employees may select a rate of payroll deduction between 1% and 15% of their cash compensation. For the first offering period employees shall be automatically granted an option based on 15% of their cash compensation during the first purchase period. An employee's participation in this plan will end automatically upon termination of employment for any reason.

No participant will be able to purchase shares having a fair market value of more than $25,000, determined as of the first day of the applicable offering period, for each calendar year in which the employee participates in the 2000 Employee Stock Purchase Plan. Except for the first offering period, each offering period will be for two years and will consist of four six-month purchase periods. The first offering period is expected to begin on the first day on which price quotations are available for our common stock on the Nasdaq National Market. The first purchase period may be more or less than six months long. After that, the offering periods will begin on February 1 and August 1. The purchase price for shares of our common stock purchased under the 2000 Employee Stock Purchase Plan will be 85% of the lesser of the fair market value of our common stock on the first day of the applicable offering period or the last day of each purchase period. Our compensation committee will have the power to change the starting date of any later offering period, the purchase date of a purchase period and the duration of any offering period or purchase period without stockholder approval if this change is announced before the relevant offering period or purchase period. Our 2000 Employee Stock Purchase Plan is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code.

We have initially reserved 1,000,000 shares of our common stock for issuance under the 2000 Employee Stock Purchase Plan. The number of shares reserved for issuance under the plan will increase automatically on January 1 of each year, commencing in 2001, by an amount equal to 1% of our total outstanding shares as of the immediately preceding December 31. Our board or compensation committee may reduce the amount of the increase in any particular year. The 2000 Employee Stock Purchase Plan will terminate in , 2010, unless it is terminated earlier by our board of directors.

401(K) Plan

We sponsor a defined contribution plan intended to qualify under Section 401 of the Internal Revenue Code, or a 401(k) Plan. Employees who are at least 21 years old are generally eligible to participate and may enter the 401(k) Plan as of the first day of any month. Participants may make pre-tax contributions to the plan of up to 15% of their eligible earnings, subject to a statutorily prescribed annual limit. Each participant is fully vested in his or her contributions and the investment earnings. We may make matching contributions on a 52 discretionary basis to the 401(k) Plan but had not done so as of June 30, 2000. Contributions by the participants or us to the plan, and the income earned on these contributions, are generally not taxable to the participants until withdrawn. Contributions by us, if any, would generally be deductible by us when made. Contributions are held in trust as required by law. Individual participants may direct the trustee to invest their accounts in authorized investment alternatives.

Indemnification of Directors and Officers and Limitation on Liability

Our certificate of incorporation includes a provision that limits or eliminates the personal liability of a director for monetary damages resulting from breach of his or her fiduciary duty as a director, except for liability:

- for any breach of the director's duty of loyalty to Transmeta or its stockholders;

- for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;

- unlawful payments of dividends or unlawful stock repurchases, redemptions or other distributions; or
- for any transaction from which the director derived an improper personal benefit.

Our bylaws provide that:

- we are required to indemnify our directors and officers to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions where indemnification is not permitted by applicable law;

- we are required to advance expenses, as incurred, to our directors and officers in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions; and - the rights conferred in the bylaws are not exclusive.

In addition to the indemnification required in our certificate of incorporation and bylaws, before the completion of this offering, we intend to enter into indemnification agreements with each of our current directors and officers. These agreements will provide for the indemnification of our officers and directors for all expenses and liabilities incurred in connection with any action or proceeding brought against them by reason of the fact that they are or were agents of Transmeta. We also intend to obtain directors' and officers' insurance to cover our directors, officers and some of our employees for liabilities, including liabilities under securities laws. We believe that these indemnification provisions and agreements and this insurance are necessary to attract and retain qualified directors and officers.

The limitation of liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against directors and officers, even though an action, if successful, might benefit us and other stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions. At present, there is no pending litigation or proceeding involving any of our directors, officers or employees regarding which indemnification by Transmeta is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

Related Party Transactions

Since January 1, 1997, we have not been a party to, and we have no plans to be a party to, any transaction or series of similar transactions in which the amount involved exceeded or will exceed $60,000 and in which any current director, executive officer or holder of more than 5% of our common stock had or will have an interest, other than as described where required under "Management" and the transactions described below.

Stock Purchases

The following table summarizes purchases of shares of our common stock since January 1, 1997 by our executive officers, directors and holders of more than 5% of our common stock on an as-converted basis.

PURCHASER	NUMBER OF SHARES	TOTAL PURCHASE PRICE	DATE OF PURCHASE
David R. Ditzel	250,000	$ 325,000	3/24/99
Mark K. Allen	1,000,000	6,000,000	1/17/00
Merle A. McClendon	550,000	6,600,000	8/03/00
James N. Chapman	400,000	100,000	12/09/97
	250,000	325,000	3/24/99
Douglas A. Laird	250,000	325,000	3/24/99
David P. Jensen	275,000	1,993,750	3/06/00
Murray A. Goldman	100,000	130,000	12/18/98
	50,000	65,000	12/18/98
	250,000	325,000	3/24/99
	40,000	40,000	2/18/00
	40,000	10,000	2/18/00
R. Hugh Barnes	40,000	10,000	6/15/99
	60,000	78,000	12/18/98
William P. Tai	60,000	15,000	7/30/98

The following table summarizes purchases of shares of Series D, Series E, Series F and Series G preferred stock since January 1, 1997 by our directors and holders of more than 5% of our common stock on an as-converted basis. Upon completion of this offering, each share of Series D preferred stock will automatically convert into two shares of common stock and each share of Series E, Series F and Series G preferred stock will automatically convert into one share of common stock.

SHARES OF PREFERRED STOCK PURCHASER	SERIES D	SERIES E	SERIES F	SERIES G
William P. Tai(1)	60,000	--	--	19,200
Entities affiliated with Five Points Capital(2)	--	--	--	120,000
Entities affiliated with Institutional Venture Partners(3)	809,818	1,666,666	--	--
Entities affiliated with Walden	758,736		--	40,000
Vulcan Ventures Incorporated	3,036,000	233,333	525,000	160,000
Entities affiliated with Quantum Industrial Partners LDC	--	--	2,600,000	208,000
Date(s) of Purchase	4/97 - 11/97	6/98 - 7/98	7/99	4/00
Price per share	$2.50	$6.00	$10.00	$12.50

(1) Represents shares held of record by WT Technology, which Mr. Tai, one of our directors, and his family members may be deemed to beneficially own.

(2) Mr. McNulty, a director of Transmeta, is a general partner of Five Points Capital.

(3) Messrs. Tai and Thomas, directors of Transmeta, are general partners of Institutional Venture Partners.

Registration Rights

We have entered into an investors' rights agreement with each of the purchasers of preferred stock set forth above. Under this agreement, these and other stockholders are entitled to registration rights with respect to their shares of common stock issuable upon conversion of their preferred stock upon the closing of this offering. Following this offering, holders of 36,587,171 shares of our common stock, the holder of a convertible promissory note to purchase 600,000 shares of our common stock and holders of warrants to purchase 610,392 shares of our common stock will be entitled to registration rights for their shares of common stock. See "Description of Capital Stock -- Registration Rights."

Loans to Executive Officers and Directors

In connection with the option exercises described under "Management -- Director Compensation" and "Management -- Executive Compensation," the following executive officers and directors delivered full recourse promissory notes, each with a five-year term, bearing interest semi-annually on the principal amounts as indicated in the table below.

BORROWER	PRINCIPAL AMOUNT	INTEREST RATE	LOAN DATE
David R. Ditzel	$ 325,000	4.77%	3/24/99
Mark K. Allen	6,000,000	6.12	1/17/00
Merle A. McClendon	6,600,000	6.23	8/03/00
James N. Chapman	100,000	5.93	12/09/97
	325,000	4.77	3/24/99
Douglas A. Laird	325,000	4.77	3/24/99
David P. Jensen	1,993,750	6.69	3/06/00
Murray A. Goldman	130,000	4.47	12/18/98
	65,000	4.47	12/18/98
	325,000	4.77	3/24/99
	24,167	6.46	2/18/00
	2,709	6.46	2/18/00
R. Hugh Barnes	78,000	4.47	12/18/98
	10,000	5.30	6/15/99

In addition, on May 17, 2000, we loaned $750,000 to each of David R. Ditzel and Douglas A. Laird. Mr. Ditzel and Mr. Laird each delivered a promissory note secured by shares of common stock held by them. Each note has a five-year term and bears interest annually at 6.40% on the principal amount.

Principal Stockholders

The following table presents information regarding the beneficial ownership of our common stock as of July 31, 2000, and as adjusted to reflect the sale of the shares in this offering, for:

- each person or entity known by us to own beneficially more than 5% of our common stock;

- each of the executive officers named in the Summary Compensation Table above;

- each of our directors; and - all executive officers and directors as a group.

The percentage of beneficial ownership for the following table is based on 56,672,755 shares of common stock outstanding as of July 31, 2000, assuming the conversion of all outstanding shares of our preferred stock into 36,587,171 shares of our common stock and the conversion of a convertible promissory note into 600,000 shares of common stock, which will occur upon the closing of this offering. The percentage of beneficial ownership after the offering is based on shares of our common stock issued in connection with this offering, assuming no exercise of the underwriters' over-allotment option.

To our knowledge, except under community property laws or as otherwise noted, the persons named in the table have sole voting and sole investment power with respect to all shares beneficially owned. Unless otherwise indicated, each five percent stockholder listed below maintains a mailing address of c/o Transmeta Corporation, 3940 Freedom Circle, Santa Clara, California 95054.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and does not necessarily indicate beneficial ownership for any other purpose. Under these rules, beneficial ownership includes those shares of common stock over which the stockholder has sole or shared voting or investment power. It also includes shares of common stock that the stockholder has a right to acquire within 60 days after July 31, 2000 through the exercise of any option, warrant or other right. The percentage ownership of the outstanding common stock, however, is based on the assumption, expressly required by the rules of the Securities and Exchange Commission, that only the person or entity whose ownership is being reported has converted options or warrants into shares of our common stock.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED	SHARES SUBJECT TO A RIGHT OF REPURCHASE AS OF JULY 31, 2000	PERCENTAGE BENEFICIALLY OWNED BEFORE OFFERING	AFTER OFFERING
T. Peter Thomas(1).....	7,288,848	--	12.7%	
Entities affiliated with Institutional Venture Partners				
William P. Tai(2).....	5,256,535	--	9.3	
Entities affiliated with Walden(3).....	4,809,038	--	8.5	
Vulcan Ventures Incorporated.....	3,954,333		7.0	
Quantum Industrial Partners(4).....	2,808,000	--	5.0	
David R. Ditzel.....	2,210,000	180,000	3.9	

Douglas A. Laird(5).....	1,368,472	180,000	2.4
James N. Chapman.....	650,000	296,667	1.2
Murray A. Goldman(6).....	480,000	230,004	*
Daniel E. Steimle.....	206,040	21,458	*
Paul M. McNulty(7).....	120,000	--	*
Entities affiliated with Five Points Capital, Inc.			
R. Hugh Barnes.....	100,000	41,669	*
All executive officers and directors as a group (11 persons)(8).....	17,981,358	2,654,798	31.8%

(footnotes on next page) * Less than 1%.

(1) Includes 975,000 shares held by Institutional Venture Partners VIII, L.P., 646,666 shares held by Institutional Venture Partners VII, L.P., 13,333 shares held by Institutional Venture Management VII, L.P., 10,500 shares held by IVM Investment Fund VIII, LLC, and 4,500 shares held by IVM Investment Fund VIII-A, LLC. Mr. Tai and Mr. Thomas are each a general partner of the general partner of these entities, and as such may be deemed to be the beneficial owner of these shares. Also includes 5,284,852 shares held by Institutional Venture Partners VI, L.P., 241,553 shares held by IVP Founders Fund I, L.P, and 112,444 shares held by Institutional Venture Management VI, L.P. Mr. Thomas is a general partner of the general partner of these entities, and as such may be deemed to be the beneficial owner of these shares. Mr. Tai and Mr. Thomas each disclaim beneficial ownership of these shares, except to the extent of his respective pecuniary interest in these shares. The address of Institutional Venture Partners is 3000 Sand Hill Road, Building Two, Suite 290, Menlo Park, CA 94025.

(2) Represents 60,000 shares held of record by Mr. Tai, 60,000 shares held by WT Technology, which Mr. Tai and his family members may be deemed to beneficially own. Also includes 1,649,999 shares held by entities affiliated with Institutional Venture Partners and 3,486,536 shares held by entities affiliated with Walden. The address of WT Technology is c/o Institutional Venture Partners, 3000 Sand Hill Road, Building Two, Suite 290, Menlo Park, CA 94025.

(3) Represents 799,896 shares held by Walden-SBIC, L.P., 729,638 shares held by Walden Investors, 561,236 shares held by International Venture Capital Investment Corporation; 548,224 shares held by Walden International III, C.V.; 503,280 shares held by OCBC, Wearnes & Walden Investments (Singapore) Ltd.; 365,138 shares held by Walden Ventures; 342,868 shares held by O,W&W Pacrim Investments Ltd.; 320,824 shares held by BI Walden Ventures Kedua Sdn. Bhd.; 194,156 shares held by Seed Ventures II, Limited; 187,726 shares held by Walden Capital Partners, L.P.; 113,802 shares held by Walden Technology Ventures II, L.P.; 102,250 shares held by O,W&W Investments Limited; and 40,000 shares held by WIIG Japan Partners II, L.P. Mr. Tai is a limited partner in the general partner of funds managed by Walden and a shareholder in Walden International Investment Group, and as such may be deemed to be the beneficial owner of shares held by Walden-SBIC, L.P., Walden International III, C.V., Walden Technology Ventures II, L.P., International Venture Capital Investment Corporation, OCBC, Wearnes & Walden Investments (Singapore) Ltd., O,W&W Pacrim Investments Ltd., BI Walden Ventures Kedua Sdn. Bhd., Seed Ventures II, Ltd. and O,W&W Investments Limited. The address of these stockholders is 750 Battery Street, San Francisco, CA 94111. Mr. Tai disclaims beneficial ownership of these shares except for his pecuniary interest in these shares.

(4) Represents 1,490,000 shares held by Quantum Industrial Partners LDC, 1,167,880 shares held by Quantum Partners LDC, and 150,120 shares held by SFM Domestic Investments LLC. George Soros is the sole shareholder of the general partner of the investment advisor for Quantum Industrial Partners LDC, the Chairman and President of the investment manager for Quantum Partners LDC and a managing member of SFM Domestic Investments LLC. Mr. Soros has also agreed to use his best efforts to cause the general partner of the investment advisor for Quantum Industrial Partners LDC to act at the discretion of Soros Fund Management LLC, of which he is the Chairman and President. Mr. Soros may be deemed to be a beneficial owner of all of the shares held by Quantum Industrial Partners LDC, Quantum Partners LDC and SFM Domestic Investments LLC. The address of Quantum Industrial Partners LDC and Quantum Partners LDC is Kaya Flamboyan 9, Willemstad, Curacao, Netherlands Antilles. The address of SFM Domestic Investments LLC is 888 Seventh Avenue, New York, NY 10106.

(5) Represents shares held of record jointly by Mr. Laird and his wife, as trustees for the Douglas A. & Joan G. Laird Trust dated August 30, 1989.

(6) Includes 88,748 shares held of record by Murray A. Goldman, as trustee for the Murray A. Goldman Irrevocable Deed of Trust dated February 29, 2000.

(7) Represents 86,000 shares held by Five Points Fund, L.P. and 34,000 shares held by Five Points Offshore Fund, Ltd. Mr. McNulty, one of our directors, is a general partner of Five Points Capital, Inc., which is the management company of each of Five Points Fund, L.P. and Five Points Offshore Fund, Ltd.

(8) Includes the shares held by Institutional Venture Partners described in note 1, the shares held by WT Technology and Walden described in note 2 and the shares held by Five Points Capital described in note 7.

Description of Capital Stock

General

Immediately following the closing of this offering, our authorized capital stock will consist of 1,000,000,000 shares of common stock, $.00001 par value per share, and 5,000,000 shares of undesignated preferred stock, $.00001 par value per share. As of June 30, 2000, we had outstanding 56,526,243 shares of common stock, assuming the conversion of all outstanding preferred stock into common stock and the conversion of a convertible promissory note into 600,000 shares of common stock, which will occur upon the closing of this offering. As of June 30, 2000, we had approximately 345 shareholders.

Common Stock

Dividend Rights

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to received dividends out of assets legally available at the times and in the amounts that our board may determine from time to time.

Voting Rights

Each holder of common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. We have not provided for cumulative voting for the election of directors in our certificate of incorporation. This means that the holders of a majority of the shares voted can elect all of the directors then standing for election. Prior to that time, however, cumulative voting in the election of directors will be in effect, meaning that each share of voting stock will be entitled to a number of votes equal to the number of votes to which that share would normally be entitled multiplied by the number of directors to be elected. A stockholder may then cast all of these votes for a single candidate or may allocate them among as many candidates as the stockholder may choose. In addition, our certificate of incorporation and bylaws require the approval of two-thirds, rather than a majority, of the shares entitled to vote for some matters. For a description of these matters, see "-- Anti-Takeover Effects of Delaware Law and our Certificate of Incorporation and Bylaws" below.

No Preemptive, Conversion or Redemption Rights

Our common stock is not entitled to preemptive rights and is not subject to conversion or redemption.

Right to Receive Liquidation Distributions

Upon a liquidation, dissolution or winding-up of our company, the holders of common stock are entitled to share ratably in all assets remaining after payment of all liabilities and the liquidation preferences of any outstanding preferred stock. Each outstanding share of common stock is, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

Preferred Stock

Following this offering, we will be authorized, subject to limitations imposed by Delaware law, to issue preferred stock in one or more series, to establish from time to time the number of shares to be included in each series, and to fix the rights, preferences and privileges of the shares of each wholly unissued series and any of its qualifications, limitations or restrictions. Our board can also increase or decrease the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by the stockholders.

The board may authorize the issuance of preferred stock with voting or conversion rights that could harm the voting power or other rights of the holders of the common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of Transmeta and might harm the market price of our common stock and the voting and other rights of the holders of common stock. We have no current plans to issue any shares of preferred stock.

Warrants

As of June 30, 2000, we had outstanding warrants to purchase 1,073,216 shares of our common stock at a weighted average exercise price of $2.27 per share. The warrants are exercisable at any time up to their expiration date and expire variously from August 2001 through April 2008.

Convertible Promissory Note

As of June 30, 2000, we had outstanding a promissory note in favor of IBM in the principal amount of $600,000. The note does not bear interest and is convertible into 600,000 shares of our common stock upon the closing of this offering at the option of IBM. Unless converted, the promissory note is due on December 31, 2003.

Registration Rights

The holders of 36,587,171 shares of common stock issuable upon conversion of the preferred stock have the right to require us to register their shares with the Securities and Exchange Commission so that those shares may be publicly resold or to include their shares in any registration statement we file. In addition, the holders of 1,210,392 shares of common stock issuable upon exercise of warrants and the conversion of the promissory note in favor of IBM have piggyback registrations rights.

Demand Registration Rights. At any time six months after the closing of this offering, the holders of at least 20% of the shares having demand registration rights have the right to require that we register all or a portion of their shares. We are only obligated to file two registration statements in response to these demand registration rights. The first demand registration right exercised must cover a sale of securities with a total public offering price of at least $25 million and the second demand registration

right exercised must cover a sale of at least $15 million of securities. We may postpone the filing of a registration statement for up to 120 days once in a 12-month period if we determine that the filing would be seriously detrimental to us and our stockholders. The underwriters of any underwritten offering will have the right to limit the number of shares to be included in a registration statement filed in response to the exercise of these demand registration rights due to marketing reasons.

Piggyback Registration Rights. If we register any securities for public sale, the stockholders with registration rights will have the right to include their shares in this registration, subject to specified exceptions. The underwriters of any underwritten offering will have the right to limit the number of shares registered by these holders under specified conditions.

Form S-3 Registration Statements. The holders of the shares having registration rights can request that we register their shares if we are eligible to file a registration statement on Form S-3 and if the total price of the shares of common stock offered to the public is at least $500,000. These holders may only require us to file one Form S-3 Registration Statement in any 12-month period. We may postpone the filing of any registration statement for up to 120 days if we determine that the filing would be seriously detrimental to us and our stockholders, although we may exercise this right only once in any 12-month period.

We will pay all expenses related to any demand or piggyback registration and up to two registrations on Form S-3, except for underwriters' discounts and commissions, which will be paid by the selling stockholders. The registration rights described above will expire eight years following the completion of this offering.

Anti-takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws

The provisions of Delaware law, our certificate of incorporation and our bylaws may have the effect of delaying, deferring or discouraging another party from acquiring control of us.

Delaware Law

We will be subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. This section prevents some Delaware corporations from engaging, under some circumstances, in a business combination, which includes a merger or sale of more than 10% of the corporation's assets with any interested stockholder, which is a stockholder who owns 15% or more of the corporation's outstanding voting stock, as well as affiliates and associates of the stockholder, for three years following the date that the stockholder became an "interested stockholder" unless:

- the transaction is approved by the board of directors prior to the date the interested stockholder attained that status;

- upon consummation of the transaction that resulted in the stockholder's becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or - on or subsequent to that date the business combination is approved by the board and authorized at an annual or special meeting of stockholders by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

A Delaware corporation may opt out of this provision with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. However, we have not opted out of this provision. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

Charter and Bylaws

Our certificate of incorporation and bylaws provide that:

- following the completion of this offering, no action can be taken by stockholders except at an annual or special meeting of the stockholders called in accordance with our bylaws and stockholders may not act by written consent;

- following the completion of this offering, the approval of holders of two-thirds of the shares entitled to vote at an election of directors will be required to adopt, amend or repeal our bylaws or amend or repeal the provisions of our certificate of incorporation regarding the election and removal of directors and ability of stockholders to take action;

- stockholders may not call special meetings of the stockholders or fill vacancies on the board;

- our board of directors will be divided into three classes, each serving staggered three-year terms. This means that only one class of directors will be elected at each annual meeting of stockholders, with the other classes continuing for the remainder of their respective terms. Directors may only be removed for cause by the holders of two-thirds of the shares entitled to vote at an election of directors; and - we will indemnify officers and directors against losses that they may incur in investigations and legal proceedings resulting from their services to us, which may include services in connection with takeover defense measures.

California Foreign Corporation Law

Section 2115 of the California Corporations Code provides that under some circumstances several provisions of the California Corporations Code may be applied to foreign corporations qualified to do business in California notwithstanding the law of the jurisdiction where the corporation is incorporated. These corporations are referred to in this section as "quasi-California" corporations. Section 2115 applies to foreign corporations that have more than half of their voting stock held by

stockholders residing in California and more than half of their business deriving from California. If we were determined to be a quasi-California corporation, we would have to comply with California law with respect to, among other things, elections of 60 directors and distributions to stockholders. Under the California Corporations Code, a corporation is prohibited from paying dividends unless:

- the retained earnings of the corporation immediately prior to the distribution equal or exceed the amount of the proposed distribution; or - (a) the assets of the corporation, exclusive of specific non-tangible assets, equal or exceed 1.25 times its liabilities, exclusive of specific liabilities; and (b) the current assets of the corporation at least equal its current liabilities. If the average pre-tax net earnings of the corporation before interest expense for the two years preceding the distribution were less than the average interest expense of the corporation for those years, however, the current assets of the corporation must exceed 1.25 times its current liabilities.

Following this offering, we will be exempt from the application of Section 2115 if we remain listed on the Nasdaq National Market and our voting stock is held by more than 800 stockholders.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is ChaseMellon Shareholder Services.

Listing

We have applied to list our common stock on the Nasdaq National Market under the trading symbol "TMTA."

Shares Eligible for Future Sale

Sales of substantial amounts of our common stock, including shares issued upon exercise of outstanding options and warrants, in the public market after this offering could cause the prevailing market price of our common stock to fall or impair our ability to raise equity capital in the future.

Upon completion of this offering, we will have outstanding shares of our common stock, or shares if the underwriters' over-allotment option is exercised in full, assuming that there are no exercises of outstanding options or warrants after June 30, 2000. Of these shares, all of the shares sold in this offering will be freely tradable in the public market without restriction or further registration under the Securities Act, unless these shares are held by "affiliates," as that term is defined in Rule 144 under the Securities Act. For purposes of Rule 144, an "affiliate" of an issuer is a person that, directly or indirectly through one or more intermediaries, controls, or is controlled by or is under common control with, the issuer. Shares purchased by an affiliate may not be resold except pursuant to an effective registration statement or an applicable exemption from registration, including an exemption under Rule 144 of the Securities Act. The remaining 56,526,243 shares of our common stock held by existing stockholders are "restricted securities," as that term is defined in Rule 144 of the Securities Act. These restricted

securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration under Rule 144 or 701 under the Securities Act. These rules are summarized below. Subject to the lock-up agreements described below and the provisions of Rule 144 and Rule 701, additional shares will be available in the public market as follows:

Number of Shares Date

```
No shares.............    On the date of this prospectus
        shares.......    180 days after the date of this prospectus
        shares.......    At various times beginning more than 180 days after the date of this prospectus
```

In addition, based on options outstanding as of June 30, 2000, after this offering, 7,277,040 shares will be issuable under outstanding options and warrants, of which approximately will be exercisable 180 days after this offering.

Lock-up Agreements

The officers, directors and substantially all of our stockholders have agreed, subject to limited exceptions, not to sell, transfer or otherwise dispose of directly or indirectly, any of their shares of common stock or any securities convertible or exchangeable, of shares of common stock for a period of 180 days after the date of this offering without the prior written consent of Morgan Stanley & Co. Incorporated. Morgan Stanley & Co. Incorporated, however, may at its sole discretion, at any time without notice, release all or any portion of the shares subject to lock-up agreements.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year from the later of the date those shares of common stock were acquired from us or from an affiliate of ours would be entitled to sell, within any three-month period, a number of shares that is not more than the greater of:

(1) 1% of the number of shares of common stock then outstanding, which will equal approximately shares immediately after this offering; or (2) the average weekly trading volume of our common stock on the Nasdaq National Market during the four calendar weeks before a notice of the sale on Form 144 is filed.

Sales under Rule 144 are also subject to manner of sale provisions, notice requirements and the availability of current public information about us.

Rule 144(K)

In addition, under Rule 144(k), a person who is not one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years from the later of the date these shares of common stock were acquired from us or from an affiliate of ours, including the holding period of any prior owner other than an affiliate, is entitled to sell those shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted pursuant to the lock-up agreements, those shares may be sold immediately upon the completion of this offering.

Rule 701

In general, under Rule 701 of the Securities Act as currently in effect, subject to specified exceptions, our employees, consultants or advisors who purchased shares from us in connection with a stock option plan can resell, unless otherwise restricted pursuant to the lock-up agreements, those shares 90 days after the date of this prospectus in reliance on Rule 144, but without complying with some of the restrictions, including the holding period, contained in Rule 144.

Registrations

After this offering, we intend to file a registration statement on Form S-8 under the Securities Act covering 10,263,824 shares of our common stock subject to options outstanding under our 1995 Equity Incentive Plan, 1997 Equity Incentive Plan or non-plan grants, shares reserved for issuance under our 2000 Equity Incentive Plan and 2000 Employee Stock Purchase Plan and 3,761,040 shares issued upon exercise of options by employees. This registration statement is expected to be filed as soon as practicable after this offering. However, none of the shares registered will be eligible for resale until expiration of the 180-day lock-up restriction to which they are subject. In addition, the holders of 36,587,171 shares of common stock issuable upon conversion of the preferred stock and the holders of 1,210,392 shares of common stock issuable upon exercise of warrants and the conversion of a promissory note are entitled pursuant to contractual provisions providing for registration rights to require us to register our securities owned by them for public sale.

Underwriters

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. Incorporated, Deutsche Bank Securities Inc., Salomon Smith Barney Inc., Banc of America Securities LLC and SG Cowen Securities Corporation are acting as representatives, have severally agreed to purchase, and we have agreed to sell to them, severally, the number of shares indicated below:

Number of Name Shares

Morgan Stanley & Co. Incorporated..... Deutsche Bank Securities Inc. ..... Salomon Smith Barney Inc. ..... Banc of America Securities LLC..... SG Cowen Securities Corporation.....

Total.....

The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the initial public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of $ a share under the initial public offering price. Any underwriter may allow, and such dealers may reallow, a concession not in excess of $ a share to other underwriters or to certain dealers. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives of the underwriters.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the underwriter's name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table. If the underwriters' option is exercised in full, the total price to the public would be $, the total underwriters' discounts and commissions would be $ and the total proceeds to us would be $.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed five percent of the total number of shares of common stock offered by them.

We have filed an application for our common stock to be listed, subject to official notice of issuance, on the Nasdaq National Market under the symbol "TMTA."

We and our directors, executive officers and substantially all of our stockholders and holders of rights to acquire our common stock have agreed that, without the prior written consent of Morgan Stanley & Co.

Incorporated on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or - enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of common stock, whether any transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise.

The restrictions described in this paragraph do not apply to:

- the sale of shares to the underwriters;

- transactions by any person other than us relating to shares of common stock or other securities acquired in open market transactions after the completion of the offering of the shares;

- the transfer of shares of common stock or any security convertible into common stock by gift, if no filing under Section 16 of the Exchange Act is required; and - the distribution of shares of common stock or any security convertible into common stock to limited partners, members or stockholders, if no filing under Section 16 of the Exchange Act is required.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may over-allot in connection with the offering, creating a short position in the common stock for their own account. In addition, to cover over-allotments or to stabilize the price of the common stock, the underwriters may bid for, and purchase, shares of common stock in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the common stock in the offering if the syndicate repurchases previously distributed shares of common stock in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the common stock above independent market levels. The underwriters are not required to engage in these activities and may end any of these activities at any time.

We and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

Directed Share Program Prospectus Disclosure

At our request, the underwriters have reserved for sale, at the initial offering price, up to approximately shares of common stock offered hereby for directors, officers, employees, business associates and other persons related to us. There can be no assurance that any of the reserved shares will be purchased. The number of shares of common stock available for sale to the general public will be reduced to the extent

these parties purchase the reserved shares. Any reserved shares that are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered by this prospectus.

Certain entities and individuals affiliated with Morgan Stanley & Co. Incorporated, Deutsche Bank Securities Inc. and SG Cowen Securities Corporation own 266,666, 1,425,764 and 64,566 shares of preferred stock, respectively, which were purchased in private placements on the same terms and conditions as the other investors in each respective private placement, including the price per share.

Pricing of the Offering

Prior to this offering, there has been no public market for the shares of common stock. The initial public offering price will be determined by negotiations between us and the representatives of the underwriters. Among the factors to be considered in determining the initial public offering price will be:

- our future prospects and our industry in general;

- sales, earnings and certain other financial and operating information in recent periods; and - the price-earnings ratios, price-sales ratios and market prices of securities and financial and operating information of companies engaged in activities similar to ours.

The estimated initial public offering price range set forth on the cover page of this preliminary prospectus is subject to change as a result of market conditions and other factors.

Legal Matters

Fenwick & West LLP, Palo Alto, California, will pass upon the validity of the common stock that we are selling in this offering. Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California, will pass upon legal matters for the underwriters. An investment partnership affiliated with Fenwick & West LLP holds a total of 50,882 shares of our common stock.

Experts

Our consolidated financial statements as of December 31, 1998 and 1999, and for each of the three years in the period ended December 31, 1999, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

Where You Can Find More Information

We have filed with the Securities and Exchange Commission a registration statement on Form S-1, including exhibits and a schedule, under the Securities Act with respect to the common stock to be sold in this offering. This prospectus, which constitutes a part of the registration statement, does not contain all of the information in the registration statement or the exhibits and schedule. Statements made in this prospectus regarding the contents of any contract, agreement or other document are only summaries. With respect to each contract, agreement or other document filed as an exhibit to the registration statement, we refer you to the exhibit for a more complete description of the matter involved. You may read and copy all or any portion of the registration statement or any reports, statements or other information in the files at the following public reference facilities of the Commission:

Room 1024, Judiciary Plaza	Seven World Trade Center	500 West Madison Street
450 Fifth Street, N.W	Suite 1300	Suite 1400
Washington, D.C., 20549	New York, New York 10048	Chicago, Illinois 60661

You can request copies of these documents upon payment of a duplicating fee by writing to the Commission. You may call the Commission at 1-800-SEC-0330 for further information on the operation of its public reference rooms. Our filings, including the registration statement, will also be available to you on the website maintained by the Commission at http://www.sec.gov.

We intend to furnish our stockholders with annual reports containing consolidated financial statements audited by our independent auditors, and make available to our stockholders quarterly reports for the first three quarters of each year containing unaudited interim consolidated financial statements.

Transmeta Corporation (A Development Stage Company)

Index to Consolidated Financial Statements

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Report of Ernst & Young Llp, Independent Auditors

The Board of Directors and Stockholders Transmeta Corporation We have audited the accompanying consolidated balance sheets of Transmeta Corporation (a development stage company) as of December 31, 1998 and 1999, and the related consolidated statements of operations, stockholders' equity

(deficit), and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Transmeta Corporation at December 31, 1998 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles in the United States.

Palo Alto, California February 17, 2000 except for Note 11 as to which the date is , 2000.

The foregoing report is in the form that will be signed upon the reincorporation of Company as described in Note 11 to the consolidated financial statements.

/s/ ERNST & YOUNG LLP Palo Alto, California August 17, 2000.

Transmeta Corporation (A Development Stage Company)

Consolidated Balance Sheets (In Thousands, Except for Share and Per Share Data)

PRO FORMA LIABILITIES AND STOCKHOLDERS' EQUITY AT JUNE 30, DECEMBER 31, JUNE 30, 2000 1998 1999 2000 (UNAUDITED) (UNAUDITED)

ASSETS			
Current assets:			
Cash and cash equivalents	$27,809	$46,645	$ 112,353
Restricted cash	1,990	--	--
Short-term investments	--	19,799	3,015
Accounts receivable	114	--	243
Inventories	--	--	4,047
Prepaid expenses and other current assets	663	1,808	2,650
Total current assets	30,576	68,252	122,308
Property and equipment, net	12,489	8,537	7,072
Deferred charges under license agreements	--	18,927	22,545
Loans to founders	--	--	5,250
Other assets	432	511	795
Total assets	$43,497	$96,227	$ 157,970
LIABILITIES AND STOCKHOLDERS' EQUITY			

Current liabilities:			
Accounts payable	$ 802	$ 853	$ 4,873
Accrued compensation and related compensation liabilities	850	1,113	1,830
Other accrued liabilities	2,154	1,880	3,603
Borrowing under line of credit agreement	1,575	--	--
Current portion of long-term debt and capital lease obligations	3,286	5,494	5,937
Total current liabilities	8,667	9,340	16,243

Long-term debt and capital lease obligations..... 10,356 7,256 5,303 Deposits received under subleasing agreements..... 99 231 138 Payable to a development partner under license agreement..... 343 19,533 20,866 $ 20,455 Commitments and contingencies Stockholders' equity: Convertible preferred stock, $0.00001 par value at amounts paid in; 13,427,374 shares authorized at December 31, 1998, 21,119,835 shares authorized at December 31, 1999, and 28,159,835 shares authorized at June 30, 2000; 13,427,335, 21,119,835 and 28,159,835 shares issued and outstanding at December 31, 1998 and 1999, and at June 30, 2000, respectively; aggregate liquidation preference of $58,224,603, $135,149,603, and $219,629,603 at December 31, 1998 and 1999, and June 30, 2000, respectively, (none pro forma)..... 58,149 134,980 222,922 -- Common stock, $0.00001 par value at amounts paid in; 80,000,000 shares authorized; 14,941,740, 17,089,952 and 19,339,072 shares issued and outstanding at December 31, 1998 and 1999, and at June 30, 2000, respectively (80,000,000 shares authorized and 56,526,243 shares outstanding pro forma)..... 1,761 3,967 37,724 261,057 Notes receivable from stockholders..... (961) (3,071) (11,019) (11,019) Deferred stock compensation..... -- -- (14,808) (14,808) Accumulated other comprehensive loss..... -- (3) -- -- Deficit accumulated during development stage..... (34,917) (76,006) (119,399) (119,399) Total stockholders' equity..... 24,032 59,867 115,420 $ 115,831 Total liabilities and stockholders' equity..... $43,497 $96,227 $ 157,970 (See accompanying notes) F-3

Transmeta Corporation (A Development Stage Company)

Consolidated Statements of Operations (In Thousands, Except for Share and Per Share Data)

PERIOD FROM MARCH 3, 1995 (DATE OF INCORPORATION) THROUGH JUNE 30, YEARS ENDED DECEMBER 31, SIX MONTHS ENDED JUNE 30, 2000 1997 1998 1999 1999 2000 (UNAUDITED) (UNAUDITED) (UNAUDITED)

Revenue:						
Product	$ --	$ 326	$ 76	$ 74	$ 358	$ 1,010
License	1,400	28,000	5,000	5,000	--	34,400
Total revenue	1,400	28,326	5,076	5,074	358	35,410
Cost of revenue	--	71	18	16	223	312
Gross profit	1,400	28,255	5,058	5,058	135	

35,098					
Operating expenses:					
Research and development(1).....	12,828	23,467	33,122	16,143	26,549
102,901					
Selling, general and administrative(2).....	4,584	12,616	12,811	5,805	11,447
43,458					
Amortization of deferred charge under license agreements.....	--	--	218	--	4,461
4,679					
Amortization of deferred stock compensation.....	--	--	--	--	3,140
3,140					
Total operating expenses....	17,412	36,083	46,151	21,948	45,597
154,178					
Operating loss.....	(16,012)	(7,828)	(41,093)	(16,890)	(45,462)
(119,080)					
Interest and other income.....	96	892	2,456	507	2,945
6,625					
Interest expense.....	(271)	(1,154)	(1,952)	(1,001)	(876)
(4,284)					
Loss before income taxes.....	(16,187)	(8,090)	(40,589)	(17,384)	(43,393)
(116,739)					
Provision for income taxes.....	--	2,000	500	500	--
2,500					
Net loss.....	$(16,187)	$(10,090)	$(41,089)	$(17,884)	$(43,393)
$(119,239)					
Net loss per share -- basic and diluted.....	$ (1.57)	$ (0.87)	$ (3.02)	$ (1.37)	$ (2.81)
Weighted average shares outstanding -- basic and diluted.....	10,288	11,537	13,618	13,048	15,419
Pro forma net loss per share -- basic and diluted (unaudited).....			$ (1.03)		$ (0.88)
Pro forma weighted average shares outstanding -- basic and diluted (unaudited).....			39,782		49,227

(1) Excludes $507 in amortization of deferred stock compensation for the six months ended June 30, 2000 and for the period from March 3, 1995 (Date of Incorporation) through June 30, 2000.

(2) Excludes $2,633 in amortization of deferred stock compensation for the six months ended June 30, 2000 and for the period from March 3, 1995 (Date of Incorporation) through June 30, 2000.

(See accompanying notes) F-4

Transmeta Corporation (A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

DEFICIT							
				NOTES			ACCUMULATED
ACCUMULATED	TOTAL						
		CONVERTIBLE		RECEIVABLE	DEFERRED	OTHER	
DURING THE	STOCKHOLDERS'						
		PREFERRED	COMMON	FROM	STOCK	COMPREHENSIVE	
DEVELOPMENT	EQUITY						

STOCK STOCK STOCKHOLDERS COMPENSATION LOSS STAGE (DEFICIT)

Issuance of 4,000,000 shares of common stock to founders of the Company at $0.00075 per share for cash in March 1995..... $ -- $ 3 $ -- $ -- $ -- $ -- $ 3 Issuance of 6,000,000 shares of common stock to founders of the Company at $0.005 per share for cash in July 1995..... -- 30 -- -- -- -- 30 Issuance of 1,515,151 shares of Series A convertible preferred stock in September 1995 to investors for cash at $1.65 per share, net of issuance costs..... 2,500 -- -- -- -- -- 2,500 Issuance of 3,345,454 shares of Series B convertible preferred stock at $1.65 per share and warrants to purchase 1,081,920 shares of Series C convertible preferred stock to investors for cash in a private placement in December 1995..... 5,521 -- -- -- -- -- 5,521 Net loss..... -- -- -- -- -- (1,009) (1,009) Balance at December 31, 1995..... 8,021 33 -- -- -- (1,009) 7,045 Repurchase of 1,515,151 shares of Series A convertible preferred stock by the Company in November 1996..... (2,500) -- -- -- -- (160) (2,660) Net loss..... -- -- -- -- -- (7,471) (7,471) Balance at December 31, 1996..... 5,521 33 -- -- -- (8,640) (3,086) Issuance of 1,028,866 shares of common stock to employees under option exercises at various dates in 1996..... -- 155 (124) -- -- -- 31 Issuance of 1,081,920 shares of Series C convertible preferred stock in January 1997 to investors for cash at $2.50 per share upon exercise of warrants..... 2,705 -- -- -- -- -- 2,705 Issuance of 3,999,962 shares of Series D convertible preferred stock in April 1997 to investors for cash at $5.00 per share..... 20,000 -- -- -- -- -- 20,000 Issuance of equity purchase right included in non- interest-bearing convertible notes in connection with development agreement..... -- 302 -- -- -- -- 302 Net loss..... -- -- -- -- -- (16,187) (16,187) Balance at December 31, 1997..... 28,226 490 (124) -- -- (24,827) 3,765 Issuance of warrants to purchase 367,516 shares of common stock in connection with lease financing at various dates in 1997..... -- 78 -- -- -- -- 78 Issuance of 3,878,874 shares of common stock to employees under option exercises, net of repurchases at various dates in 1997..... -- 1,167 (837) -- -- -- 330 Issuance of 34,000 shares of common stock to employees under bonus plan at various dates..... -- 26 -- -- -- -- 26 Issuance of 4,999,999 shares of Series E convertible preferred stock in June 1998 to investors for cash at $6.00 per share, net of issuance costs..... 29,923 -- -- -- -- -- 29,923 Net loss..... -- -- -- -- -- (10,090) (10,090) Balance at December 31, 1998..... $ 58,149 $ 1,761 $ (961) $ -- $ -- $ (34,917) $ 24,032 (See accompanying notes)

Transmeta Corporation (A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (CONTINUED) (IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

DEFICIT ACCUMULATED TOTAL DURING THE STOCKHOLDERS' DEVELOPMENT EQUITY STAGE (DEFICIT)

CONVERTIBLE NOTES ACCUMULATED PREFERRED COMMON RECEIVABLE DEFERRED OTHER STOCK STOCK FROM STOCK COMPREHENSIVE STOCKHOLDERS COMPENSATION LOSS

Issuance of 7,692,500 shares of Series F convertible preferred stock in July 1999 to investors for cash at $10.00 per share, net of issuance costs..... $ 76,831 $ -- $ -- $ -- $ -- $ 76,831 Issuance of 10,000 shares of common stock to consultants in connection with Series F financing in July 1999..... -- 35 -- -- -- -- 35 Issuance of 2,138,212 shares of common stock to employees under option exercises, net of repurchases at various dates in 1998..... -- 2,154 (2,110) -- -- -- 44 Issuance of warrants to purchase 34,000 shares of common stock in connection with consulting agreement in July 1999..... -- 17 -- -- -- -- 17 Other comprehensive loss -- unrealized loss on available-for-sale investments, net..... -- -- -- -- (3) -- (3) Net loss..... -- -- -- -- -- (41,089) (41,089) Comprehensive loss..... -- -- -- -- -- -- (41,092) Balance at December 31, 1999..... 134,980 3,967 (3,071) -- (3) (76,006) 59,867 Issuance of 7,040,000 shares of Series G convertible preferred stock in April 2000 to investors for cash at $12.50 per share, net of issuance costs (unaudited)..... 87,942 -- -- -- -- -- 87,942 Issuance of 1,997,831 shares of common stock to employees under option exercises, net of repurchases at various dates (unaudited)..... -- 8,084 (7,948) -- -- -- 136 Stock compensation in connection with severance arrangement (unaudited)... -- 945 -- -- -- -- 945 Issuance of warrants to purchase 4,000 shares of common stock in connection with consulting agreement in January 2000 (unaudited)..... -- 30 -- -- -- -- 30 Issuance of common stock to a development partner in February 2000 (unaudited)..... -- 6,750 -- -- -- -- 6,750 Deferred stock compensation (unaudited)..... -- 17,948 -- (17,948) -- -- -- Amortization of deferred stock compensation (unaudited)..... -- -- -- 3,140 -- -- 3,140 Change in other comprehensive loss, net (unaudited)..... -- -- -- -- 3 -- 3 Net loss (unaudited)..... -- -- -- -- -- (43,393) (43,393) Comprehensive loss (unaudited)..... -- -- -- -- -- -- (43,390) Balance at June 30, 2000 (unaudited)..... $222,922 $37,724 $(11,019) $(14,808) $ -- $(119,399) $115,420 (See accompanying notes)

Transmeta Corporation (A Development Stage Company)

Consolidated Statements of Cash Flows (In Thousands)

	PERIOD FROM MARCH 3, 1995 (DATE OF INCORPORATION) THROUGH JUNE 30,	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
		1997	1998	1999	1999	2000
					(UNAUDITED)	(UNAUDITED)
Cash flows from operating activities:						
Net loss.....	$(16,187)	$(10,090)	$(41,089)	$(17,884)		$

(43,393)	$(119,239)									
Adjustments to reconcile net loss to net cash used in operating activities:										
Amortization of deferred stock compensation.....	--	--	--	--	3,140	3,140				
Depreciation and amortization.....	493	3,809	5,275	2,482	2,867	12,546				
Fair value of equity instruments issued for services.....	--	20	52	17	30	102				
Stock compensation in connection with severance agreement.....	--	--	--	--	945	945				
Amortization of deferred charges under license agreements.....	--	--	218	--	4,461	4,679				
Accretion of interest payable to a development partner.....	--	45	45	20	4	94				
Changes in operating assets and liabilities:										
Accounts receivable.....	--	(114)	114	105	(243)	(243)				
Inventories.....	--	--	--	--	(4,047)	(4,047)				
Prepaid expenses and other current assets.....	(434)	(121)	(1,145)	(977)	(842)	(2,650)				
Accounts payable and accrued liabilities.....	2,092	1,168	40	(1,001)	6,460	10,306				
Deposits received under subleasing agreements...	--	99	132	--	(93)	138				
Net cash used in operating activities.....	(14,036)	(5,184)	(36,358)	(17,238)	(30,711)	(94,229)				
Cash flows used in investing activities:										
Purchase of available-for-sale investments.....	--	--	(57,312)	--	(111,551)	(170,853)				
Change in restricted cash.....	--	(1,990)	--	1,990	--	--				
Proceeds from sale or maturity of available-for-sale investments.....	--	--	39,500	--	128,338	167,838				
Purchase of property and equipment.....	(2,486)	(13,543)	(1,323)	(723)	(1,402)	(19,618)				
Loans to founders.....	--	--	--	--	(5,250)	(5,250)				
Other assets.....	(101)	(332)	(79)	(80)	(284)	(796)				
Net cash provided by (used in) investing activities.....	(2,587)	(15,865)	(19,214)	1,187	9,851	(28,679)				
Cash flows from financing activities:										
Net proceeds from sale of preferred stock.....	16,273	29,923	76,831	--	87,942	218,990				
Advance proceeds from sale of preferred stock.....	--	--	--	19,409	--	--				
Common stock issued under stock option plans.....	30	356	44	5	136	600				
Issuance of debt and capital lease obligations....	110	13,564	2,773	1,932	658	17,773				
Repayment of debt and capital lease obligations...	(262)	(327)	(3,665)	(1,704)	(2,168)	(6,474)				
Proceeds from bridge loan.....	--	--	--	--	--	6,432				
Redemption of convertible preferred stock.....	--	--	--	--	--	(2,660)				

```
  Borrowings under line of credit..................     1,575         --     (1,575)     (1,575)
--            --
  Net proceeds from issuance of convertible
    promissory note................................       600         --         --          --
--           600
Net cash provided by financing activities..........    18,326     43,516     74,408      18,067
86,568       235,261
Change in cash and cash equivalents................     1,703     22,467     18,836       2,016
65,708       112,353
Cash and cash equivalents at beginning of period....     3,639      5,342     27,809      27,809
46,645            --
Cash and cash equivalents at end of period.........  $  5,342   $ 27,809   $ 46,645    $ 29,825      $
112,353     $ 112,353
Supplemental disclosure of cash paid during the
  period:
  Cash paid for interest...........................  $    174   $  1,080   $  1,846    $    976      $
816     $   3,945
  Cash paid for taxes..............................         1      2,105        500         500
1          2,608
Supplemental disclosure of noncash financing and
  investing activities:
  Issuance of warrants.............................        --         78         17          17
30           125
  Issuance of common stock to consultants in
    connection with Series F financing.............        --         --         35          --
--            35
  Issuance of common stock to employees for notes
    receivable.....................................       124        837      2,109       1,974
7,948        11,019
  Issuance of payable to development partner........        --         --     18,927          --
--        18,927
  Conversion of bridge loan to Series D preferred
    stock..........................................     6,432         --         --          --
--         6,432
  Common stock issued in connection with license
    agreement......................................        --         --         --          --
6,750         6,750
```

(See accompanying notes) F-7

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED

1. Summary of Significant Accounting Policies

The Company

Transmeta Corporation ("Transmeta" or the "Company") develops and sells software-based microprocessors and develops additional hardware and software technologies that enable computer manufacturers to build computers that simultaneously offer long battery life, high performance and x86 compatibility.

Transmeta was incorporated in California as Transmeta Corporation on March 3, 1995, and through June 30, 2000 was in the development stage, principally engaged in research and development, marketing, sales, raising capital, establishing sources of supplies, starting up production and building its management team. Through December 31, 1999, substantially all of Transmeta's revenue was derived from technology license agreements with development partners. In January 2000, the Company introduced its Crusoe family of microprocessors. Revenues for the six months ended June 30, 2000 were comprised of sales of product prototypes.

Fiscal Year

Transmeta changed its fiscal year-end during 1999 to end on the last Friday in December. For ease of presentation, the accompanying financial statements have been shown as ending on December 31 and calendar quarter ends for all annual and quarterly financial statement captions. Fiscal years 1997, 1998 and 1999 each consisted of 52 weeks and ended on December 31. Fiscal year 2000 will end on December 29. The first six months of fiscal 1999 ended on July 2, 1999, and the first six months of fiscal 2000 ended on June 30, 2000.

Unaudited Interim Financial Statements

The financial information at June 30, 2000 and for the six months ended June 30, 1999 and 2000 is unaudited but includes all adjustments (consisting of only normal recurring adjustments) that the Company considers necessary for a fair presentation of its financial position at such date and the operating results and cash flows for those interim periods. Results for the six months ended June 30, 2000 are not necessarily indicative of results that may be expected for the year ending December 31, 2000.

Use of Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. Significant estimates made in preparing the financial statements include estimates of potentially excess and obsolete inventory after considering forecasted demand and average selling prices and income tax valuation allowances.

Principles of Consolidation

The accompanying consolidated financial statements include the financial statements of Transmeta and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

Risk Factors and Concentrations

Transmeta is subject to various risks similar to other companies in a comparable stage of growth, including dependence on key individuals, competition from substitute products and larger companies, the need to obtain additional financing, and the continued successful development and marketing of its products.

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents and notes receivable from certain founders and stockholders. Substantially all of the Company's cash and equivalents are invested in highly liquid money market funds and commercial securities with high-quality financial institutions in the United States. Short-term investments consist of U.S. government and commercial bonds and notes.

Transmeta sells its products principally to original equipment manufacturers and their subcontract manufacturers. The Company performs ongoing credit evaluations of its customers, maintains an allowance for potential credit losses and does not generally require collateral.

The Company currently relies exclusively on IBM to fabricate its wafers and provide assembly and test services.

Revenue Recognition

Transmeta recognizes revenue from product sales upon transfer of title, providing for expected product returns and warranty costs at that time. The Company defers revenue recognition on products sold to distributors until the distributor sells such products to its customers.

Transmeta recognizes license revenue from technology license agreements when earned. Transmeta recognized $1.4 million, $28.0 million and $5.0 million of license revenue in 1997, 1998 and 1999, respectively, in connection with technology license agreements (see Note 2). No license revenue was recognized for the six months ended June 30, 2000 (unaudited).

Cash Equivalents and Short-term Investments

Highly liquid debt securities with insignificant interest rate risk and original maturities of three months or less are classified as cash equivalents. Debt securities with maturities greater than three months and remaining maturities less than one year are classified as short-term investments. Transmeta's policy is to minimize principal risk by investing in high credit-quality financial instruments and earning returns based on current interest rates.

All of Transmeta's marketable investments are classified as available-for-sale as of the balance sheet date and, accordingly, are reported at fair value with unrealized gains and losses recorded in stockholders' equity. Fair values of cash and cash equivalents approximate cost due to the short period of time to maturity. The cost of securities sold is based on the specific identification method. Realized gains or losses and declines in value, if any, judged to be other than temporary on available-for-sale securities are reported in interest income or expense.

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. The Company did not have inventories as of December 31, 1998 and 1999. The components of inventories as of June 30, 2000 were as follows:

JUNE 30, 2000 (IN THOUSANDS) (UNAUDITED)

Work in progress	$1,799
Finished goods	2,248
	$4,047

Property and Equipment

Property and equipment are carried at cost. Depreciation and amortization have been provided on the straight-line method over the related asset's estimated useful lives ranging from three to five years. Leasehold improvements and assets recorded under capital leases are amortized on a straight-line basis over the lesser of the related asset's estimated useful life or the remaining lease term.

Impairment of Long-lived Assets

Transmeta evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Research and Development

Costs to develop Transmeta's products are expensed as incurred in accordance with the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 2, "Accounting for Research and Development Costs," which establishes accounting and reporting standards for research and development costs.

Transmeta accounts for software development costs in accordance with the FASB's SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed", which requires capitalization of certain software development costs once technological feasibility for the software component is established and research and development activities for the hardware component are completed. Based on Transmeta's development process the time period between the establishment of technological feasibility and completion of the hardware component and the release of the product is short and capitalization of internal development costs has not been material to date.

Software Development Cost

Costs of software developed internally by us for use in our operations are accounted for under the American Institute of Certified Public Accountant's Statement of Position ("SOP") 98-1, "Internal Use Software," which the Company adopted on January 1, 1999. Under SOP 98-1, the Company expenses costs of research, including pre-development efforts prior to establishing technological feasibility, and costs incurred

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED for training and maintenance. Software development costs are capitalized when technological feasibility has been established, it is provable that the project will be completed and the software will be used as intended. Costs incurred during the application development stage were insignificant and accordingly no costs related to internal use software have been capitalized through June 30, 2000.

Income Taxes

Transmeta accounts for income taxes in accordance with the FASB's SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"), which requires the use of the liability method in accounting for income taxes. Under SFAS 109, deferred tax assets and liabilities are measured based on differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws that will be in effect when differences are expected to reverse.

Fair Values of Financial Instruments

The fair values of Transmeta's cash equivalents, short-term investments, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of those instruments.

The fair values of short-term and long-term capital lease obligations are estimated based on current interest rates available to Transmeta for debt instruments with similar terms, degrees of risk and remaining maturities. The carrying values of these obligations approximate their respective fair values.

The fair values of long-term assets are valued on the basis of present value calculations and are amortized over the useful life of these assets.

Warranty

Transmeta typically provides a warranty that includes factory repair services as needed for replacement parts on its products for a period of one year from shipment. Transmeta records a provision for estimated warranty costs upon shipment of its products. Warranty costs have been within management's expectations to date and have not been material.

Deferred Charges Under License Agreements and Related Payment Obligations

Transmeta has capitalized the cost of intangibles associated with license agreements with third-party developers (see Note 2). These intangibles are amortized over their estimated useful lives. Payment obligations under the license agreement with IBM are accreted using the effective interest method over the payment period.

Segment Information

Transmeta has adopted the FASB's SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information" ("SFAS 131"). Transmeta operates solely in one segment, the development, marketing and sale of platform solutions for the mobile computing market. The Company also currently operates in one geographic region and is evaluated by management on a single segment basis. Therefore, there was no impact on Transmeta's consolidated financial statements from the adoption of SFAS 131.

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED

Advertising Expenses

All advertising costs are expensed as incurred. To date, advertising costs have not been material.

Stock-based Compensation

Transmeta accounts for its stock options and equity awards in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and has elected to follow the "disclosure only" alternative prescribed by SFAS 123. Expense associated with stock-based compensation is amortized on an accelerated basis over the vesting period of the individual award consistent with the method described in FASB Interpretation No. 28. Accordingly, approximately 59% of the unearned deferred compensation is amortized in the first year, 25% in the second year, 12% in the third year, and 4% in the fourth year following the date of grant. Pursuant to the FASB's SFAS 123 ("SFAS 123"), "Accounting for Stock-Based Compensation", Transmeta discloses the pro-forma effect of using the fair value method of accounting for its stock-based compensation arrangements.

Options and warrants granted to consultants and vendors are accounted for at fair value determined by using the Black-Scholes method in accordance with Emerging Issues Task Force consensus No. 96-18. The assumptions used to value stock-based awards to consultants and vendors are similar to those used for employees except that a volatility of 0.80 was used (see Note 8 for pro forma disclosures of stock-based compensation pursuant to SFAS 123.)

Net Loss Per Share

Basic and diluted net loss per share is presented in conformity with the FASB's SFAS No. 128, "Earnings Per Share" ("SFAS 128"), for all periods presented. Pursuant to the Securities and Exchange Commission Staff Accounting Bulletin No. 98, common stock and convertible preferred stock issued or granted for nominal consideration prior to the anticipated effective date of the Company's initial public offering must be included in the calculation of basic and diluted net loss per share as if they had been outstanding for all periods presented (see Note 8).

In accordance with SFAS 128, basic and diluted net loss per share have been computed using the weighted-average number of shares of common stock outstanding during each period, less shares subject to repurchase. Pro forma basic and diluted net loss per share, as presented in the statements of operations, has been computed as described above and also gives effect, under Securities and Exchange Commission guidance, to the conversion of the convertible preferred stock (using the if-converted method) from the original date of issuance.

Recent Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133, as amended, establishes methods for recording derivative financial instruments and hedging activities related to those instruments, as well as other hedging activities. The Company is required to adopt SFAS 133 effective January 1, 2001. Because the Company currently does not hold any derivative instruments and does not engage in hedging activities, the Company does not currently believe that the adoption of SFAS 133, as amended, will have a significant impact on its financial position or results of operations.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"). SAB 101 summarizes certain areas of the Staff's views in applying generally accepted

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED accounting principles to revenue recognition in financial statements. Transmeta believes that its current revenue recognition principles comply with SAB 101.

In March 2000, the Emerging Issues Task Force ("EITF") of the FASB issued EITF Issue 00-2, "Accounting for Website Development Costs." The issue addresses how an entity should account for costs incurred to develop a website. The total capitalizable costs associated with the development of Transmeta's website have been immaterial to date and have not been capitalized.

In March 2000, the FASB issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, Interpretation of APB Opinion No. 25." Interpretation No. 44 clarifies the application of Accounting Principle Board Opinion No. 25 to certain issues including: (i) the definition of employee for purposes of applying APB Opinion No. 25, (ii) the criteria for determining whether a plan qualifies as a noncompensatory plan, (iii) the accounting consequences of various modifications to the terms of a previously fixed stock option or award, and (iv) the accounting for an exchange of stock compensation awards in business combinations. In general, Interpretation No. 44 is effective July 1, 2000. The Company does not expect the adoption of Interpretation No. 44 to have a material effect on our consolidated financial position or results of operations.

Reclassifications

Certain prior-year amounts have been reclassified to conform to the current year's presentation.

2. Technology License Agreements

In December 1997, Transmeta entered into a technology license agreement with IBM Corporation ("IBM"), which was amended in 1999 as described below. The term of the original agreement was for five years. Under the original agreement, Transmeta granted to IBM a worldwide non-exclusive license to certain technology developed and under development by Transmeta. In return, Transmeta received $2.0 million in cash and issued IBM a non-interest-bearing convertible promissory note in the face amount of $600,000. The note is contingently convertible into common stock of Transmeta upon completion of an initial public offering of common stock or upon certain defined acquisition or merger transactions involving the Company. In 1997, Transmeta recognized $1.4 million of revenue and the net present value of the note was recorded as a payable to development partner on the balance sheet and accretes interest to its maturity on December 31, 2003. The difference between the face amount and the present value of the note was credited to additional paid-in capital. The agreement also entitled Transmeta to earn royalties on sales by IBM of products incorporating the licensed technology.

During 1998, IBM made additional license payments of $8.0 million upon the Company's meeting certain milestones. In addition, IBM agreed to perform certain engineering and product services without charge and to provide credits against future sales to Transmeta in connection with the agreement.

In November 1999, the parties amended the technology license agreement. IBM relinquished certain of the worldwide license rights previously obtained in exchange for commitments by Transmeta. These commitments included paying a total of $33.0 million to IBM during the period from December 15, 2001 through December 15, 2004 and paying a total of $4.3 million for engineering and production services ($1.4 million in 1999 and $2.9 million in 2000). Transmeta's payments to IBM for expenses related to the engineering and production services are expensed as incurred. In addition, the convertibility of the convertible promissory note described above was fixed at 600,000 shares of Transmeta's common stock upon completion of an initial public offering.

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED The net present value of the $33.0 million commitment (approximately $18.9 million) has been recorded on the balance sheet as a deferred charge under license agreement with a corresponding liability. This liability is being accreted to its future value using the effective interest method at a rate of approximately 15% per annum and is being recorded as part of deferred charges under license agreements. The deferred charge under license agreement is being amortized on a straight-line basis over the remaining initial license term. Management assesses the realizability of the intangible asset at each balance sheet date.

In February 1998, Transmeta also entered into a technology license agreement with Toshiba Corporation ("Toshiba"). Under this agreement, Transmeta granted to Toshiba a worldwide non-exclusive license to certain technology developed and under development by Transmeta. In return, Transmeta received nonrefundable cash payments totaling $20.0 million and $5.0 million upon the attainment of certain milestones in 1998 and 1999, respectively. The agreement also entitles Transmeta to earn royalties on sales by Toshiba of products incorporating the licensed technology. This agreement was amended in February 2000, (see Note 12).

3. Available-for-sale Investments

All cash equivalents and short-term investments as of December 31, 1998, 1999 and June 30, 2000 (unaudited) were classified as available-for-sale securities and consisted of the following:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
		(IN THOUSANDS)		
As of December 31, 1999:				
Money market funds	$ 21,994	$ --	$ --	$ 21,994
Federal agency discount notes	29,032	5	3	29,034
Bank obligations	14,630	2	7	14,625
Total available-for-sale securities	$ 65,656	$ 7	$ 10	$ 65,653
Less amounts classified as cash equivalents				(45,854)
Total short-term investments				$ 19,799
As of June 30, 2000: (unaudited)				
Money market funds (unaudited)	$ 41,804	$ --	$ --	$ 41,804
Federal agency discount notes (unaudited)	3,015	--	--	3,015
Commercial paper (unaudited)	69,863		--	69,863
Total available-for-sale securities (unaudited)	$114,682	$ --	$ --	$ 114,682
Less amounts classified as cash equivalents (unaudited)				(111,667)
Total short term-investments (unaudited)				$ 3,015

The Company did not have any short-term investments as of December 31, 1998. Cash equivalents of $27,372,000 were stated at cost which approximated fair value.

Available-for-sale securities with a fair value at the date of sale of $39.5 million and $128.3 million were sold during the year ended December 31, 1999 and the six months ended June 30, 2000 (unaudited), respectively. No securities were sold in 1998.

All investments in debt securities mature in less than one year.

4. Property and Equipment

Property and equipment consisted of the following:

	DECEMBER 31,		JUNE 30,
	1998	1999	2000
	(IN THOUSANDS)		(UNAUDITED)
Furniture and fixtures	$ 1,344	$ 1,368	$ 1,422
Computer equipment	8,096	8,438	9,226
Computer software	6,574	7,236	7,645
Leasehold improvements	745	1,040	1,191
	16,759	18,082	19,484
Less accumulated depreciation and amortization	(4,270)	(9,545)	(12,412)
Total	$12,489	$ 8,537	$ 7,072

5. Leases and Commitments

Operating Leases

Transmeta leases its facilities and certain equipment under noncancelable operating leases expiring through 2008.

Gross operating lease and rental expenses were $1,981,000, $4,283,000, $5,335,000 and $2,785,000 during the years ended December 31, 1997, 1998 and 1999 and the six months ended June 30, 2000 (unaudited), respectively.

During 1998, 1999 and 2000, Transmeta subleased a portion of its facilities. The subleases extend through 2002. Sublease income was $105,000, $1,065,000 and $572,000 for the years ended December 31, 1998 and 1999 and the six months ended June 30, 2000 (unaudited), respectively. Future minimum rentals to be received under the facilities subleases were $1,962,000 at June 30, 2000 (unaudited).

Capital Leases

Transmeta leases certain equipment and other assets under noncancelable lease agreements that are accounted for as capital leases.

The net book value of equipment recorded under capital lease arrangements, included in property and equipment was $6,202,000, $3,926,000, and $3,012,000 as of December 31, 1998 and 1999 and June 30, 2000

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED (unaudited), respectively. At December 31, 1999, future minimum payments for the obligations described above were as follows:

	CAPITAL LEASES	OPERATING LEASES
	(IN THOUSANDS)	
Years ending December 31,		
2000	$3,395	$ 5,457
2001	3,624	4,054
2002	1,397	3,661
2003	13	4,135
2004	--	4,241
Thereafter	--	16,018
Total minimum lease payments	8,429	$37,566
Less amount representing interest	(1,343)	
Present value of capital lease obligations	7,086	
Less current portion	(2,553)	
Noncurrent portion	$4,533	

Commitments

As of June 30, 2000 (unaudited), the Company had non-cancelable outstanding purchase commitments of approximately $18.4 million in connection with the manufacturing services performed by IBM.

6. Debt

Transmeta opened a $3.0 million revolving line of credit with a bank during July 1998. The line of credit bore interest at the bank's reference rate plus 2% (7.0% at December 31, 1998), and was payable monthly and expired in July 2001. Borrowings against this line at December 31, 1998 were $1,575,000. The line was secured by $1,990,000 of cash held as collateral at the bank. Borrowings under this line of credit were repaid and the line was closed in January 1999.

In 1998 and 1999, Transmeta issued promissory notes to financing companies in the principal amounts of $3,473,000 and $1,368,000, respectively, which mature through January 2003. These notes bear interest at 10.5% and are secured by certain tangible assets with net book value of approximately $1,872,000 as of December 31, 1999. No notes were issued during the six months ended June 30, 2000 (unaudited).

Transmeta signed a note during 1998 with a supplier in the principal amount of $1,116,000 in connection with an equipment purchase. The note is due on the earlier of December 30, 2000 or the closing of an initial public offering. Interest will begin to accrue on any unpaid principal balance at the rate of 10% per annum, starting on the date of the initial public offering. The note is secured by the equipment financed.

In connection with the notes issued to the financing companies and the supplier, Transmeta issued to the note holders warrants to purchase 367,516 shares of common stock. These warrants were assigned an aggregate value of $78,000 on the basis of Black-Scholes valuation models using the contractual lives ranging from six to ten years and a volatility of 0.80. The value of the warrants was recorded as a discount against the respective borrowing and is being amortized over the respective terms of the notes. The remaining discount on the notes of $20,000 at June 30, 2000 (unaudited) is being accreted as additional financing (interest) expense

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED over the term of each respective note. The amount of discount accreted and recorded as interest expense for the years ended December 31, 1998 and 1999 and the six months ended June 30, 2000 (unaudited) was $19,000, $26,000 and $13,000, respectively.

At December 31, 1999, aggregate future minimum principal payments on the obligations described above were as follows:

Notes Payable (In Thousands)

Years ending December 31,	
2000	$2,941
2001	1,775
2002	950
2003	31
Total minimum principal payments	5,697
Less current portion	(2,941)
Less unamortized discounts	(33)
Noncurrent portion	$2,723

Additionally, as discussed in Note 2, Transmeta issued a convertible promissory note in the face amount of $600,000 in December 1997. The present value of the note at June 30, 2000 (unaudited) was $411,000 and is recorded on the balance sheet as a payable to development partner. Interest will accrete to its maturity on December 31, 2003, or until the note is converted subsequent to completion of an initial public offering or upon certain defined acquisition or merger transactions.

7. Stockholders' Equity

Noncumulative Convertible Preferred Stock

Transmeta has sold shares of several series of its convertible preferred stock since its inception, as follows:

SERIES	NUMBER OF SHARES ISSUED AND OUTSTANDING	PRICE PER SHARE	NET PROCEEDS	DIVIDEND PER SHARE	LIQUIDATION PREFERENCES PER SHARE
A.....	--	$ 1.65	$ 2,500,000	N/A	N/A
B.....	3,345,454	$ 1.65	$ 5,521,082	$0.132	$ 1.65
C.....	1,081,920	$ 2.50	$ 2,704,800	$0.20	$ 2.50
D.....	3,999,962	$ 5.00	$19,999,810	$0.40	$ 5.00
E.....	4,999,999	$ 6.00	$29,923,374	$0.48	$ 6.00
F.....	7,692,500	$10.00	$76,831,141	$0.80	$10.00

Transmeta's original financing was from the sale of 1,515,151 shares of Series A preferred stock for $2.5 million in July 1995. In November 1996, Transmeta repurchased all of the outstanding shares of Series A preferred stock from the Series A investors for $2.7 million. The difference of $160,000 between the repurchase price and the original amount paid by these investors has been charged to the accumulated deficit.

In connection with the sale of Series B preferred stock during 1995, Transmeta sold warrants to purchase 1,081,920 shares of Series C preferred stock with an exercise price of $2.50 per share at a purchase price of $0.001 per warrant. These warrants were exercised in 1997, resulting in proceeds to the Company of $2,705,000.

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED Each share of Series B, C and D preferred stock is convertible at the holder's option into two shares of common stock, and this conversion ratio is subject to adjustment under antidilution provisions as stated in the Company's Certificate of Incorporation. Each share of Series E and F preferred stock is convertible at the holders' option into one share of common stock, and this conversion ratio is subject to adjustment under antidilution provisions as stated in the Certificate of Incorporation. Each share of preferred stock will automatically convert into shares of common stock at the then-effective conversion price immediately upon the closing of the sale of the Company's common stock in a firm commitment, underwritten public offering registered under the Securities Act of 1933 at an offering price to the public equal to or exceeding $2.50 per share of common stock for Series B and C preferred stock, equal to or exceeding $7.50 per share of common stock for Series D and E preferred stock, equal to or exceeding $10.00 per share of common stock for Series F preferred stock and resulting in aggregate gross proceeds to the Company of at least $15 million.

The holder of each share of Series B, C, D, E and F preferred stock is entitled to receive, when and as declared by the board of directors, noncumulative dividends. Through June 30, 2000 (unaudited), no dividends had been declared.

The Series B, C, D, E and F preferred stockholders are entitled to liquidation preferences, adjusted for any combinations, consolidations or stock splits with respect to their shares and, in addition, an amount equal to all declared but unpaid dividends for each share of Series B, C, D, E and F preferred

stock then held. After payment of these liquidation preferences, any remaining assets would be distributed to the holders of common stock and Series B, C, D, E and F preferred stock on a pro rata basis as if the Series B, C, D, E and F preferred stock were converted into common stock at the then applicable conversion price for each respective series of preferred stock until the holders of the preferred stock received an aggregate amount equal to $3.50, $5.303, $10.606, $12.7272, and $21.2121, respectively, per share (plus an amount equal to all declared but unpaid dividends on the preferred stock).

The holders of preferred shares are entitled to the number of votes that they would have upon conversion of their preferred shares into common shares.

In April 2000, Transmeta sold Series G preferred stock, (see Note 12).

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED

Common Stock Warrants

Transmeta has periodically granted warrants in connection with certain lease and bank agreements. The Company had the following warrants outstanding to purchase common stock at December 31, 1999:

ISSUANCE DATE	NUMBER OF SHARES	EXERCISE PRICE PER SHARE	EXPIRATION DATE
October 1995	138,642	$0.825	October 2005
March 1996	164,182	$0.825	March 2006
May 1996	48,484	$0.825	December 2001
August 1996	40,000	$ 1.25	August 2001
September 1996	19,392	$0.825	December 2001
April 1997	80,000	$ 2.50	March 2003
April 1997	72,000	$ 2.50	April 2007
August 1997	80,000	$ 2.50	August 2007
December 1997	62,516	$ 2.50	December 2007
April 1998	120,000	$ 2.50	April 2008
April 1998	160,000	$ 2.50	March 2004
May 1998	25,000	$ 6.00	May 2005
March 1999	34,000	$ 6.00	March 2004

All warrants have been valued using the Black-Scholes valuation model based on the assumptions used for stock based awards to employees (see Note 8) except that a volatility of 0.80 was used. Assigned value of $78,000 and $17,000 associated with these warrant issuances were recorded as additional paid-in capital in 1998 and 1999, respectively and is being amortized as interest expense over the term of the lease and bank agreements. Costs associated with earlier periods were immaterial.

In connection with consulting services the Company issued warrants to purchase 4,000 and 25,000 shares in January and February 2000, respectively (unaudited). The warrants expire in January and February 2005, respectively, and have exercise prices of $10.00 per share. The aggregate assigned value of $30,000 associated with the warrants issued in January 2000 was computed using the Black-Scholes valuation model and was amortized over the period the services were rendered.

The fair value of the warrants issued in February 2000 to purchase 25,000 shares will be computed as the warrants vest upon achieving certain performance milestones and accordingly no value was assigned upon issuance of these warrants.

Common Stock

At the inception of the Company, certain founders, employees, directors and consultants purchased ten million shares of the Company's common stock. Transmeta has not paid dividends with respect to the common stock. The holders of common stock are entitled to liquidation preferences on a pro rata basis with the preferred stockholders after the preferred stockholders have received their preferential amounts.

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED Transmeta's Certificate of Incorporation provides that the Company must at all times reserve a number of shares of its common stock that would be sufficient to effect the conversion of all outstanding shares of preferred stock as well as exercises of the warrants and employee and consultant options granted under the stock option plans. Shares reserved for future issuance and are as follows:

	DECEMBER 31, 1999	JUNE 30, 2000 (UNAUDITED)
Preferred stock conversion	29,547,171	36,587,171
Warrants outstanding	1,044,216	1,073,216
Options outstanding	4,347,480	6,203,824
Future option grants	3,047,068	1,097,644
	37,985,935	44,961,855
Shares subject to repurchase	2,648,497	2,867,481

Transmeta's equity incentive plans permit option holders to exercise stock options before they are vested, subject to certain limitations. Common stock issued in connection with these exercises is subject to repurchase at the exercise price until vesting occurs. Notes issued to employees to exercise stock options bear interest at rates ranging from 4.47% to 6.69% and have terms extending to five years. All such notes are full recourse and are recorded as a reduction of stockholders' equity when issued.

8. Stock-based Compensation

Stock Option Plans

Transmeta has two stock option plans: the 1995 Equity Incentive Plan and the 1997 Equity Incentive Plan (the "Plans") were adopted on September 5, 1995 and July 11, 1997, respectively. The Plans provide for the grant to employees of incentive stock options ("ISOs") and the grant to employees, directors and consultants of nonstatutory stock options. As of June 30, 2000 (unaudited), the maximum number of common shares available under the Plans was 13.0 million.

Options granted under the Plans may be designated as "ISO" or "nonstatutory stock options" at the discretion of Transmeta, with exercise prices not less than the fair market value at the date of grant. Options generally vest 25% on the first anniversary of the vesting start date and then monthly over the next three years. Options expire ten years from the grant date.

Non-plan Grants

Transmeta has from time to time granted options outside of the Plans ("non-plan stock options"). There were non-plan stock options for an aggregate of 485,000, 1,735,000 and 3,610,000 shares of common stock authorized and granted as of December 31, 1998 and 1999 and June 30, 2000 (unaudited), respectively.

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED

Stock Option Summary

The following is a summary of the Company's stock option activity under the Plans and outside the Plans, and related information:

		OPTIONS OUTSTANDING		
	SHARES AVAILABLE FOR GRANT	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
Balance at December 31, 1996.....	300,000	3,700,000	$0.08	
Additional shares reserved.....	2,000,000	--		
Options granted.....	(2,265,900)	2,265,900	$0.32	$0.10
Options exercised.....	--	(1,028,866)	$0.15	
Options canceled.....	--	(30,000)	$0.09	
Balance at December 31, 1997.....	34,100	4,907,034	$0.13	
Additional shares reserved.....	2,485,000	--		
Options granted.....	(2,301,000)	2,301,000	$1.08	$0.20

Options exercised	--	(3,878,874)	$0.30		
Options canceled	64,999	(174,167)	$0.23		
Bonus shares distributed	(34,000)	--			
Balance at December 31, 1998	249,099	3,154,993	$0.62		
Additional shares reserved	6,250,000	--			
Options granted	(4,033,500)	4,033,500	$1.89	$0.50	
Options exercised	--	(2,416,348)	$0.93		
Options canceled	303,333	(424,665)	$1.12		
Options repurchased	278,136	--			
Balance at December 31, 1999	3,047,068	4,347,480	$1.57		
Additional shares reserved (unaudited)	1,875,000	0			
Options granted (unaudited)	(3,959,500)	3,959,500	$8.42	$7.73	
Options exercised (unaudited)	--	(1,997,831)	$4.27		
Options canceled (unaudited)	105,325	(105,325)	$3.42		
Options repurchased (unaudited)	29,751	--			
Balance at June 30, 2000 (unaudited)	1,097,644	6,203,824	$5.05		

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED The exercise prices for options outstanding and exercisable as of December 31, 1999 and the weighted average remaining contractual life were as follows:

	OUTSTANDING				
		WEIGHTED AVERAGE	WEIGHTED	EXERCISABLE	
	NUMBER OF	REMAINING	AVERAGE		
	SHARES	CONTRACTUAL LIFE	EXERCISE	SHARES	WEIGHTED AVERAGE
RANGE OF EXERCISE PRICES	OUTSTANDING	(YEARS)	PRICE	EXERCISABLE	EXERCISE PRICE
As of December 31, 1999:					
$0.08	565,463	6.3	$0.08	565,463	$0.08
$0.25 - $0.375	431,967	7.8	$0.27	190,428	$0.26
$1.00 - $2.50	2,825,550	9.1	$1.30	231,325	$1.23
$5.00 - $6.00	524,500	9.8	$5.73	--	$0.00
$0.08 - $6.00	4,347,480	8.7	$1.58	987,216	$0.38

Accounting for Stock-based Compensation

The Company has elected to follow APB Opinion No. 25 and related interpretations in accounting for its employee and director stock-based awards because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock-based awards. Under APB Opinion No. 25, the Company generally recognizes no compensation expense with respect to awards if the exercise price equals or exceeds the fair value of the underlying security on the date of grant and other terms are fixed.

The fair value for these awards was estimated at the date of grant using an option pricing model. Option pricing models were developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions, including expected stock price volatility. Because the Company's stock-based awards have characteristics significantly different from those of traded options and

because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock-based awards. The fair value of options granted was determined using the minimum value method and the following weighted average assumptions:

YEARS ENDED DECEMBER 31, 1997 1998 1999

Expected volatility	N/A	N/A	N/A
Expected life of options in years	4	4	4
Risk-free interest rate	6.0%	4.70%	6.10%
Expected dividend yield	0	0	0

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED For purposes of pro forma disclosures, the estimated fair value of options is amortized to pro forma expense over the option's vesting period. Pro forma information follows:

YEARS ENDED DECEMBER 31, 1997 1998 1999 (IN THOUSANDS, EXCEPT PER SHARE DATA)

Net loss			
As reported	$(16,187)	$(10,090)	$(41,089)
Pro forma	$(16,212)	$(10,196)	$(41,601)
Net loss per share -- basic and diluted			
As reported	$ (1.57)	$ (0.87)	$ (3.02)
Pro forma	$ (1.58)	$ (0.88)	$ (3.05)

The following table presents the computation of basic and diluted and pro forma basic and diluted net loss per share:

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1997	1998	1999	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
				(UNAUDITED)	(UNAUDITED)
Basic and diluted: Net loss	$(16,187)	$(10,090)	$(41,089)	$(17,884)	$(43,393)
Basic and diluted: Weighted average shares outstanding	10,318	12,701	16,577	15,971	18,650
Less: Weighted average shares subject to repurchase	(30)	(1,164)	(2,959)	(2,923)	(3,231)
Weighted average shares used in computing basic and diluted net loss per share	10,288	11,537	13,618	13,048	15,419
Net loss per share -- basic and diluted	$ (1.57)	$ (0.87)	$ (3.02)	$ (1.37)	$ (2.81)
Pro Forma basic and diluted: Shares used above	13,618	15,419			
Pro forma adjustment to reflect weighted-average effect of the assumed conversion of convertible preferred stock	26,164	33,808			
Shares used in computing pro forma net loss per share	39,782	49,227			
Pro forma net loss per share -- basic and diluted	$ (1.03)	$ (0.88)			

The Company has excluded all outstanding stock options and shares subject to repurchase from the calculation of basic and diluted net loss per share because these securities are antidilutive for all periods presented. Options and warrants to purchase 5,612,250, 4,165,209, 5,391,696, 5,600,889 and 7,277,040 shares of common stock, determined using

the treasury stock method, for the years ended December 31, 1997, 1998 and 1999 and the six months ended June 30, 1999 (unaudited) and 2000 (unaudited), respectively, were not included in the computation of diluted net loss per share because the effect would be antidilutive. These

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED securities, had they been dilutive, would have been included in the computation of diluted net loss per share using the treasury stock method.

9. Income Taxes

In 1998 and 1999, the Company recorded tax provisions of $2.0 million and $500,000, respectively, relating to foreign taxes withheld on license revenue. No tax provision was recorded during the six months ended June 30, 2000 (unaudited). The Company has incurred operating losses in all periods that have not been tax benefited.

Deferred income taxes reflect the net tax effect of operating loss and tax credit carryforwards and temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and consist of:

YEARS ENDED DECEMBER 31, 1998 1999 (IN THOUSANDS)

Federal operating loss carryforwards	$ 8,300	$ 18,900
State operating loss carryforwards	1,300	2,200
Federal tax credit carryforwards	1,200	2,200
State tax credit carryforwards	900	1,450
Non-deductible reserves and capitalized expenses	740	960
	12,440	25,710
Valuation allowance	(12,440)	(25,710)
Net deferred tax assets	$ --	$ --

Based upon the weight of available evidence, which includes the Company's historical operating performance, the Company has always provided a full valuation allowance against its net deferred tax assets as it is not more likely than not that the deferred tax assets will be realized. The valuation allowance increased by $3.0 million and $13.3 million during 1998 and 1999, respectively.

The federal operating loss and tax credit carryforwards listed above will expire between 2010 and 2019, if not previously utilized. The state operating loss and tax credit carryforwards will expire beginning in 2003, if not previously utilized. Because of certain ownership change rules under federal and state tax rules, approximately $5.0 million of the December 31, 1999 tax-effected amounts of federal and state operating loss and tax credit carryforwards listed above are not immediately available to offset future tax liabilities. These amounts will be available through 2002. The Company's planned initial public offering should not result in further limitations on the use of tax carryforwards.

10. Employee Benefit Plan

Transmeta has an Employee Savings and Retirement Plan (the "Benefit Plan") under Section 401(k) of the Internal Revenue Code for its eligible employees. The Benefit Plan is available to all of Transmeta's employees who meet minimum age requirements, and provides employees with tax deferred salary deductions and alternative investment options. Employees may contribute up to 15% of their eligible earnings, subject to certain limitations. There are no matching contributions by the Company under the Benefit Plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED

11. Subsequent Events

Reincorporation

Effective , Transmeta reincorporated as a Delaware corporation. Share capital information for all periods has been retroactively adjusted to reflect the par value of common and preferred stock and amounts of paid-in-capital.

12. Subsequent Events (Unaudited)

Registration Statement

On August 14, 2000, the board of directors authorized the Company to file a registration statement with the U.S. Securities and Exchange Commission for an initial public offering ("IPO") of its common stock.

If the offering is consummated under the terms presently anticipated, all of the convertible preferred stock outstanding as of June 30, 2000 will convert to 36,587,171 shares of common stock upon the closing of the IPO. The effect of this conversion has been reflected as unaudited pro forma stockholders' equity in the accompanying consolidated balance sheet at June 30, 2000.

Toshiba Technology License Agreement Amendment

On February 27, 2000, Transmeta and Toshiba amended their technology license agreement. Toshiba relinquished certain of the worldwide license rights previously obtained from Transmeta in exchange for 600,000 shares of Transmeta common stock. The value of the stock, $6,750,000, has been recorded on the balance sheet as a deferred charge under license agreement and is being amortized on a straight-line basis over the remaining initial license term of three years.

Deferred Compensation

Transmeta has recorded deferred stock compensation charges of $17,948,000 during the six months ended June 30, 2000, representing the aggregate difference between the exercise prices of the options and the deemed fair values of common stock subject to the options as of the respective measurement dates. These amounts are being amortized by charges to operations, using the graded vesting method, over the four year vesting periods of the individual stock options. During the six month period ended June 30, 2000, the Company recorded $3,140,000 of amortization expense related to deferred stock compensation.

Related Party Transactions

Certain founders of Transmeta received loans from the Company in May 2000. The notes received as consideration for these loans, aggregating $5,250,000, are non-recourse and are secured by a total of 525,000 shares of common stock, the shares held by the founders were originally issued and vested in 1995. The notes accrete interest, compounded annually, at 6.4% and are due in May 2005.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED

Noncumulative Convertible Preferred Stock

Transmeta sold shares of series G preferred stock subsequent to December 31, 1999. The particulars are as follows:

SERIES	NUMBER OF SHARES ISSUED AND OUTSTANDING	PRICE PER SHARE	NET PROCEEDS	DIVIDEND PER SHARE	LIQUIDATION PREFERENCES
G	7,040,000	$12.50	$87,942,000	$1.00	$12.50

Each share of Series G preferred stock is convertible at the holder's option into one share of common stock, and this conversion ratio is subject to adjustment under antidilution provisions as stated in the Company's Certificate of Incorporation. Each share of

preferred stock will automatically convert into a share of common stock at the then-effective conversion price immediately upon the closing of the sale of the Company's common stock in a firm commitment, underwritten public offering registered under the Securities Act of 1933 at an offering price to the public equal to or exceeding $13.40 per share of common stock and resulting in aggregate gross proceeds to the Company of at least $25 million.

The holder of each share of Series G preferred stock is entitled to receive, when and as declared by the board of directors, noncumulative dividends. Through June 30, 2000, no dividends had been declared.

The Series G preferred stockholders are entitled to liquidation preferences, adjusted for any combinations, consolidations or stock splits with respect to their shares and, in addition, an amount equal to all declared but unpaid dividends for each share of Series G preferred stock then held. After payment of these liquidation preferences, any remaining assets would be distributed to the holders of common stock and Series B, C, D, E, F and G preferred stock on a pro rata basis as if the Series B, C, D, E, F and G preferred stock were converted into common stock at the then applicable conversion price for each respective series of preferred stock until the holders of the preferred stock received an aggregate amount equal to $3.50, $5.303, $10.606, $12.7272, $21.2121 and $26.5151, respectively, per share (plus an amount equal to all declared but unpaid dividends on the preferred stock).

The holders of preferred shares are entitled to the number of votes that they would have upon conversion of their preferred shares into common shares.

2000 Employee Stock Purchase Plan

Transmeta adopted the 2000 Employee Stock Purchase Plan (the "Purchase Plan") on , it allows employees to designate up to 15% of their total compensation to purchase shares of the Company's common stock at 85% of fair market value. The Company has reserved 1,000,000 shares of common stock for issuance under the Purchase Plan.

2000 Equity Incentive Plan

Transmeta adopted the 2000 Equity Incentive Plan in 2000 which will serve as the successor to the 1995 and 1997 Equity Incentive Plans. The 2000 Equity Incentive Plan authorizes the award of options, restricted stock and stock bonuses and provides for the grant of both incentive stock options that qualify under Section 422 of the Internal Revenue Code and nonqualified stock options. The exercise price of the incentive stock options must be at least equal to the fair market value of the common stock on the date of grant. The exercise price of incentive stock options granted to 10% stockholders must be at least equal to 110% of the fair

Transmeta Corporation (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) INFORMATION AS OF JUNE 30, 2000 AND FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 2000 IS UNAUDITED market value of the common stock on the date of grant. The maximum term of the options granted is ten years. 3,500,000 shares of common stock have been reserved under this plan.

Employee Option Grants

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     From July 1, 2000 to October   , 2000, options to purchase
shares were granted to employees pursuant to the 1997 Equity Incentive Plan with
exercise prices of between $          and $     per share. The Company estimates
that additional deferred compensation of $      million will be recorded as a
result of these option grants and amortized to compensation expense in
accordance with the Company's policy.
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Lease Agreements

On July 15, 2000, Transmeta entered into a lease agreement for additional building space. The lease agreement is for one year with no option to renew. Monthly payments are $56,000 over the lease term.

[Logo]

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the various expenses, other than the underwriting discounts and commissions, payable by us in connection with the sale and distribution of the securities being registered. All amounts shown are estimates, except the Securities and Exchange Commission registration fee, the National Association of Securities Dealers, Inc. filing fee and the Nasdaq National Market listing fee.

Securities and Exchange Commission registration fee..... $52,800 National Association of Securities Dealers, Inc. filing fee..... 20,500 Nasdaq National Market listing fee..... 30,500 Blue sky fees and expenses..... Transfer agent and registrar fees..... Accounting fees and expenses..... Legal fees and expenses..... Printing expenses..... Miscellaneous..... Total..... $

Item 14. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers under certain circumstances and subject to certain limitations. The terms of Section 145 of the Delaware General Corporation Law are sufficiently broad to permit indemnification under certain circumstances for liabilities, including reimbursement of expenses incurred, arising under the Securities Act of 1933 (the "Securities Act").

As permitted by the Delaware General Corporation Law, the Registrant's certificate of incorporation includes a provision that eliminates the personal liability of a director for monetary damages resulting from breach of his fiduciary duty as a director, except for liability:

- for any breach of the director's duty of loyalty to the Registrant or its stockholders;

- for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;

- under section 174 of the Delaware General Corporation Law regarding unlawful dividends and stock purchases; or - for any transaction from which the director derived an improper personal benefit.

As permitted by the Delaware General Corporation Law, the Registrant's bylaws provide that:

- the Registrant is required to indemnify its directors and officers to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions where indemnification is not permitted by applicable law;

- the Registrant is required to advance expenses, as incurred, to its directors and officers in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to certain very limited exceptions; and - the rights conferred in the bylaws are not exclusive.

In addition, the Registrant intends to enter into indemnity agreements with each of its current directors and officers. These agreements will provide for the indemnification of the Registrant's officers and directors for all expenses and liabilities incurred in connection with any action or proceeding brought against them by reason of the fact that they are or were agents of the Registrant.

The Registrant intends to obtain directors' and officers' insurance to cover its directors, officers and some of its employees for certain liabilities, including public securities matters.

Reference is also made to Section 9 of the Underwriting Agreement (Exhibit 1.01 hereto), which provides for indemnification by the Underwriters of the Registrant and its executive officers and directors for certain liabilities, including liabilities arising under the Securities Act, in connection with matters specifically provided in writing by the Underwriters for inclusion in the Registration Statement.

See also the undertakings set out in response to Item 17.

Reference is made to the following documents filed as exhibits to this Registration Statement regarding relevant indemnification provisions described above and elsewhere herein:

Exhibit Document Number

Underwriting Agreement	1.01
Registrant's Certificate of Incorporation	3.01
Form of Registrant's First Amended and Restated Certificate of Incorporation	3.02
Form of Registrant's Second Amended and Restated Certificate of Incorporation to be effective after the closing of this offering	3.03
Registrant's Bylaws as adopted July 31, 2000	3.04
Form of Registrant's Bylaws to be effective prior to completion of this offering	3.05
Fifth Restated Investors' Rights Agreement dated March 31, 2000, between Registrant, certain stockholders and a convertible note holder named therein	4.02
Form of Indemnity Agreement	10.01

Item 15. Recent Sales of Unregistered Securities.

In the three years prior to the filing of this Registration Statement, the Registrant issued and sold the following unregistered securities, all of which reflect the two-for-one common stock split effected in May 1998:

1. In September and November 1997, the Registrant issued and sold a total of 2,462,400 shares of Series D preferred stock to a group of 8 venture capital and investment funds for a total purchase price of $6,156,000, all of which was paid in cash.

2. In May 1998, the Registrant issued a total of 5,702,306 shares of common stock in a two-for-one common stock split.

3. In June and July 1998, the Registrant issued and sold a total of 4,999,999 shares of Series E preferred stock to a group of 48 investors, consisting of 19 individual investors, one corporate investor and 28 venture capital and investment funds for a total purchase price of $29,999,994, all of which was paid in cash.

4. In March 1999, the Registrant issued a warrant to Aisys Corporation to purchase up to 34,000 shares of common stock at $6.00 per share under a warrant dated March 19, 1999 as partial consideration for consulting services. The warrant is exercisable until March 18, 2004.

5. In July 1999, the Registrant issued and sold a total of 7,692,500 shares of Series F preferred stock to a group of 36 investors, consisting of 13 individual investors and 23 venture capital and investment funds for a total purchase price of $76,925,000, all of which was paid in cash.

6. In October 1999, the Registrant granted International Business Machines Corporation the right to purchase 600,000 shares of our common stock under a Restated and Amended Convertible Promissory Note dated October 29, 1999, for a purchase price of $600,000 to be paid through conversion of the note and for entering into the Amended Technology License Agreement, effective October 29, 1999.

7. In January 2000, the Registrant issued a warrant to IDEO Product Development Inc. to purchase up to 4,000 shares of common stock at $10.00 per share, exercisable upon the delivery by January 17, 2000 of a product concept model using the Registrant's product as described in the warrant. The warrant expires January 14, 2005.

8. In February 2000, the Registrant issued a warrant to Uniwill Corporation to purchase up to 25,000 shares of common stock at $10.00 per share, exercisable in various amounts from September 30, 2000 to February 28, 2001 upon the completion of development milestones using our product as described in the warrant. The Warrant expires February 1, 2005.

9. In February 2000, the Registrant issued and sold 600,000 shares of common stock to Toshiba Corporation in consideration for entering into the Restated and Amended Technology License Agreement dated February 17, 2000.

10. In April 2000, the Registrant issued and sold a total of 7,040,000 shares of Series G preferred stock to a group of 71 investors, consisting of 22 individual investors, 14 corporate investors including a company controlled by one of our directors and 35 venture capital and investment funds for a total purchase price of $88,000,000, all of which was paid in cash.

11. Since January 1, 1997, the Registrant has granted each of the following lenders a warrant to purchase shares of common stock as presented in the table below, as partial consideration for the financing of equipment used by the Registrant:

WARRANT HOLDER	WARRANT SHARES	PER SHARE EXERCISE PRICE	DATE OF ISSUANCE	EXPIRATION DATE
Venture Lending & Leasing, Inc.	80,000	$2.50	4/07/97	03/31/03
Comdisco, Inc.	72,000	$2.50	4/05/97	04/05/07
Phoenix Leasing Incorporated.	80,000	$2.50	8/15/97	08/15/07
Quickturn Design Systems Incorporated.	62,516	$2.50	12/31/97	12/31/07
Venture Lending & Leasing, Inc.	48,000	$2.50	4/29/98	03/31/04
Venture Lending & Leasing II, Inc.	112,000	$2.50	4/29/98	03/31/04
Pentech Financial Services, Inc.	120,000	$2.50	4/01/98	04/01/08
Transamerica Business Credit Corporation.	25,000	$6.00	5/21/98	05/21/05

12. Since January 1, 1997, the Registrant issued and sold to each of the following officers, directors and employees of Registrant, on the exercise dates below, the number of shares of common stock pursuant to option exercises under non-plan options granted on the dates shown on the table below:

NAME	EXERCISE DATE	NUMBER OF SHARES	PRICE PER SHARE	PROMISSORY NOTE AMOUNT	OPTION DATE
R. Hugh Barnes.	12/18/98	50,000	$ 1.30	$ 65,000	11/20/98
	12/18/98	10,000	$ 1.30	$ 13,000	11/20/98
Murray A. Goldman.	12/18/98	50,000	$ 1.30	$ 65,000	11/20/98
	12/18/98	100,000	$ 1.30	$ 130,000	11/20/98
	3/24/99	250,000	$ 1.30	$ 325,000	3/19/99
Daniel E. Steimle.	12/18/98	275,000	$ 1.30	$ 357,500	11/23/98
	3/24/99	250,000	$ 1.30	$ 325,000	3/19/99
David R. Ditzel.	3/24/99	250,000	$ 1.30	$ 325,000	3/19/99
Douglas A. Laird.	3/24/99	250,000	$ 1.30	$ 325,000	3/19/99
James N. Chapman.	3/24/99	250,000	$ 1.30	$ 325,000	3/19/99
Mark K. Allen.	1/17/00	1,000,000	$ 6.00	$6,000,000	1/04/00

David P. Jensen.....	3/06/00	275,000	$ 7.25	$1,933,750	2/18/00
Merle A. McClendon.....	8/03/00	550,000	$12.00	$6,600,000	7/21/00

13. As of June 30, 2000, the Registrant had issued 3,385,696 shares of common stock to its employees, directors, consultants and other service providers upon exercise of options under the Registrant's 1995 Equity Incentive Plan, with exercise prices ranging from $.05 to $.08 per share.

14. As of June 30, 2000, the Registrant had issued 2,921,219 shares of common stock to its employees, directors, consultants and other service providers upon exercise of options under the Registrant's 1997 Equity Incentive Plan, with exercise prices ranging from $.25 to $12.00 per share. In addition, in May 1998, the Registrant issued a total of 34,000 shares of common stock to 34 of its employees under the Registrant's 1997 Equity Incentive Plan.

The sales and issuances of securities listed above, other than the sales and issuances in Items 2, 13 and 14 were determined to be exempt from registration under Section 4(2) of the Securities Act or Regulation D thereunder as transactions by an issuer not involving a public offering. The issuance of securities listed above in Item 2 was deemed to be exempt from registration under Section 3(a)(9) of the Securities Act. The sales and issuances of securities listed above in Items 12 and 13 were deemed to be exempt from registration under the Securities Act by virtue of Rule 701 promulgated under Section 3(b) of the Securities Act as transactions pursuant to compensation benefits plans and contracts relating to compensation. All of the foregoing securities are deemed restricted securities for purposes of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules.

(a) The following exhibits are filed herewith:

Exhibit Number Exhibit Title

1.01	Form of Underwriting Agreement.*
3.01	Registrant's Certificate of Incorporation.
3.02	Amendment to Registrant's Certificate of Incorporation.
3.03	Form of Registrant's First Amended and Restated Certificate of Incorporation.*
3.04	Form of Registrant's Second Amended and Restated Certificate of Incorporation to be effective after the closing of this offering.*
3.05	Registrant's Bylaws.
3.06	Form of Registrant's Bylaws to be effective prior to completion of this offering.*
4.01	Specimen Common Stock Certificate.*
4.02	Fifth Restated Investors' Rights Agreement dated March 31, 2000, between Registrant, certain stockholders and a convertible note holder named therein.
4.03	Form of Piggyback Registration Rights Agreement.
5.01	Form of opinion of Fenwick & West LLP.
10.01	Form of Indemnity Agreement.*
10.02	Registrant's 1995 Equity Incentive Plan.
10.03	Registrant's 1997 Equity Incentive Plan.
10.04	Registrant's 2000 Equity Incentive Plan.*
10.05	Registrant's 2000 Employee Stock Purchase Plan.*

10.06	Form of Option granted to Mark K. Allen and related documents.
10.07	Agreement for Purchase and Sale of Custom Semiconductor Products, effective December 12, 1997, between International Business Machines Corporation and Registrant. +
10.08	Lease Agreement, dated November 1, 1995, between John Arrillaga, as trustee of John Arrillaga Family Trust, Richard T. Peery, as trustee of Richard T. Peery Separate Property Trust, and Registrant, as amended by Amendment No. 1, dated January 29, 1997, and Amendment No. 2, dated April 2, 1998, between John Arrillaga, as trustee of John Arrillaga Survivor's Trust (successor in interest to the Arrillaga Family Trust), Richard T. Peery, as trustee of Richard T. Peery Separate Property Trust, and Registrant.

(footnotes on next page)

Exhibit Number Exhibit Title

10.09 Lease Agreement, dated January 29, 1997, between John Arrillaga, as trustee of John Arrillaga Family Trust, Richard T. Peery, as trustee of Richard T. Peery Separate Property Trust, and Registrant, as amended by Amendment No. 1, dated April 2, 1998, between John Arrillaga, as trustee of John Arrillaga Survivor's Trust (successor in interest to the Arrillaga Family Trust), Richard T. Peery, as trustee of Richard T. Peery Separate Property Trust, and Registrant. 10.10 Lease Agreement, dated April 2, 1998, between John Arrillaga, as trustee of John Arrillaga Survivor's Trust, Richard T. Peery, as trustee of Richard T. Peery Separate Property Trust, and Registrant. 10.11 Lease Agreement, dated April 2, 1998, between John Arrillaga, as trustee of John Arrillaga Survivor's Trust, Richard T. Peery, as trustee of Richard T. Peery Separate Property Trust, and Registrant. 10.12 Sublease Agreement, dated as of October 28, 1998, between Registrant and Mitel, Inc. 10.13 Sublease Agreement, dated as of April 28, 1999, between Registrant and Xuan Nguyen dba World Marketing Alliance. 10.14 Sublease Agreement, dated as of November 1, 1999, between Registrant and Moscape, Inc. 10.15 Sublease Agreement, dated as of June 15, 2000, between Registrant and Bitlocker, Inc. 10.16 Right of First Offer and Observation Rights Agreement, dated as of June 17, 1998, between Registrant and Van Wagoner Capital Management. 21.01 Subsidiaries of the Registrant. 23.01 Consent of Fenwick & West LLP (included in Exhibit 5.01).* 23.02 Consent of Ernst & Young LLP, independent auditors. 24.01 Power of Attorney (see page II-7). 27.01 Financial Data Schedule.

* To be filed by amendment.

+ Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.

(b) FINANCIAL STATEMENT SCHEDULES All schedules have been omitted because the information required to be set forth herein is not applicable or is shown in the consolidated financial statements or notes thereto.

Item 17. Undertakings.

(a) The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described under "Item 14 -- Indemnification of Directors and Officers" above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Santa Clara, State of California, on the 17th day of August, 2000.

Transmeta Corporation

By: /s/ DAVID R. DITZEL David R. Ditzel Chief Executive Officer

Power of Attorney

KNOW BY ALL PERSONS BY THESE PRESENTS that each individual whose signature appears below constitutes and appoints David R. Ditzel and Merle A. McClendon, and each of them, his or her true and lawful attorneys-in-fact and agents with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments, including post-effective amendments, to this Registration Statement, and to sign any registration statement for the same offering covered by the Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, making such changes in this Registration Statement as such person or persons so acting deems appropriate, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his, her or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

Signature Title Date

/s/ DAVID R. DITZEL David R. Ditzel	Chief Executive Officer and Director [Principal Executive Officer]	August 17, 2000
/s/ MERLE A. MCCLENDON Merle A. McClendon	Chief Financial Officer and Secretary [Principal Financial Officer and Principal Accounting Officer]	August 17, 2000
/s/ MARK K. ALLEN Mark K. Allen	President, Chief Operating Officer and Director	August 17, 2000

/s/ R. HUGH BARNES Director August 17, 2000 R. Hugh Barnes

Signature Title Date

/s/ MURRAY A. GOLDMAN Director August 17, 2000 Murray A. Goldman /s/ PAUL M. MCNULTY Director August 17, 2000 Paul M. McNulty /s/ WILLIAM P. TAI Director August 17, 2000 William P. Tai /s/ T. PETER THOMAS Director August 17, 2000 T. Peter Thomas

Exhibit Index

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Exhibit Number Exhibit Title

21.01	Subsidiaries of the Registrant.
23.01	Consent of Fenwick & West LLP (included in Exhibit 5.01).*
23.02	Consent of Ernst & Young LLP, independent auditors.
24.01	Power of Attorney (see page II-7).
27.01	Financial Data Schedule.

* To be filed by amendment.

+ Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from this filing and have been filed separately with the Securities and Exchange Commission.
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