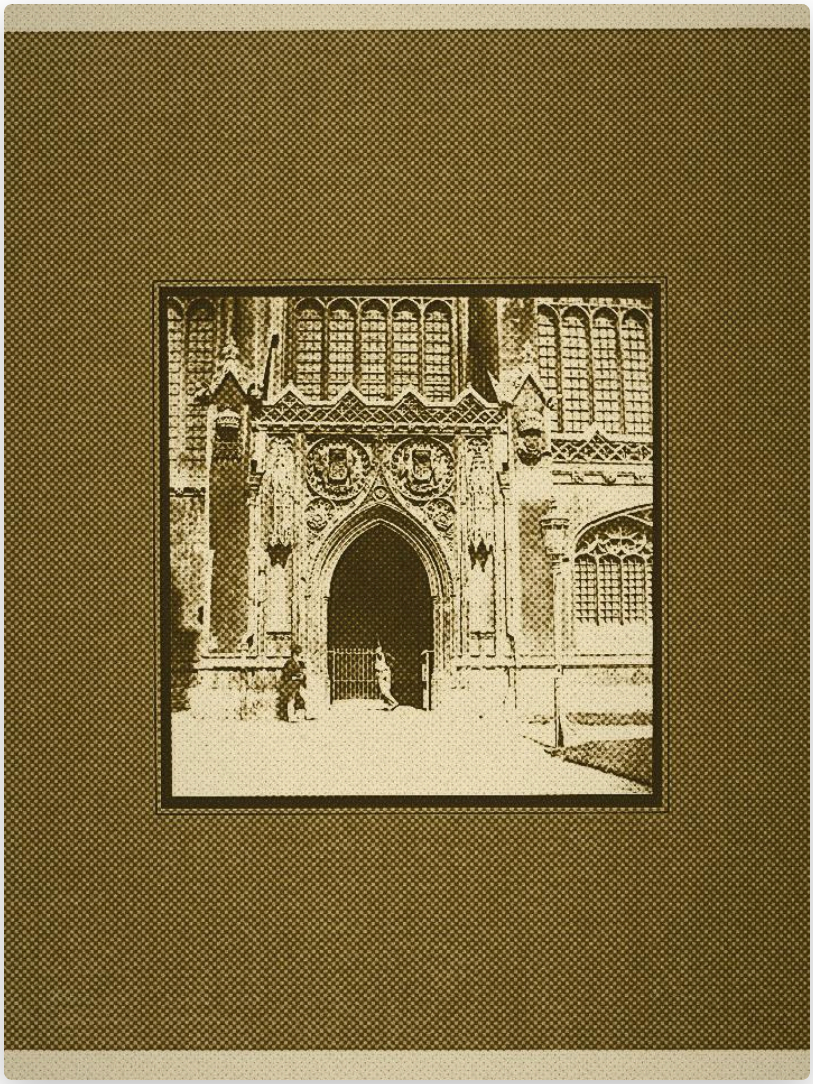
FORM S-1 · REGISTRATION STATEMENT

Virata Corp

IPO priced 1999-11-17 · $14.00 a share · VRTA



From S1 Directory · www.s1directory.com/s1/virata-corp/ · Source: https://www.sec.gov/Archives/edgar/data/1094371/000101287099003085/0001012870-99-003085.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 3, 1999. REGISTRATION NO. 333- SECURITIES AND EXCHANGE COMMISSION WASHINGTON, DC 20549 FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 VIRATA CORPORATION (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	No. 3674	77-0521696
(State of Incorporation)	(Primary Standard Industrial Classification Code Number)	(IRS employer identification number)

2933 BUNKER HILL LANE, SUITE 201 SANTA CLARA, CALIFORNIA 95054 (408) 566-1000 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) ANDREW VOUGHT CHIEF FINANCIAL OFFICER 2933 BUNKER HILL LANE, SUITE 201 SANTA CLARA, CALIFORNIA 95054 (408) 566-1000 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE) COPIES TO:

Douglas D. Smith	Nora L. Gibson
Gibson, Dunn & Crutcher LLP	Brobeck, Phleger & Harrison LLP
One Montgomery Street, Telesis Tower	One Market, Spear Street Tower
San Francisco, California 94104	San Francisco, California 94105
(415) 393-8200	(415) 442-0900

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

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, PLEASE CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT OF THE SAME OFFERING. [_] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, 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, 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, $.01 PAR VALUE.....	$50,000,000	$13,900

(1)ESTIMATED SOLELY FOR PURPOSES OF CALCULATING 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 STATE 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 COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.

++
+The information contained 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 it is not soliciting +
+an offer to buy these securities in any state where the offer or sale is not +
+permitted. +

++

SUBJECT TO COMPLETION, DATED SEPTEMBER 3, 1999

SHARES

[VIRATA LOGO]

VIRATA CORPORATION

COMMON STOCK

PRIOR TO THIS OFFERING, THERE HAS BEEN NO PUBLIC MARKET FOR OUR COMMON STOCK. THE INITIAL PUBLIC OFFERING PRICE IS EXPECTED TO BE BETWEEN $ AND $ PER SHARE. WE INTEND TO APPLY TO HAVE OUR COMMON STOCK APPROVED FOR LISTING ON THE NASDAQ STOCK MARKET'S NATIONAL MARKET UNDER THE SYMBOL "VRTA."

THE UNDERWRITERS HAVE AN OPTION TO PURCHASE A MAXIMUM OF ADDITIONAL SHARES TO COVER OVER-ALLOTMENTS SHARES.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" ON PAGE 8.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Virata
Per Share	$	$	$
Total	$	$	$

DELIVERY OF THE SHARES OF COMMON STOCK WILL BE MADE ON OR ABOUT , 1999.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CREDIT SUISSE FIRST BOSTON WARBURG DILLON READ LLC THOMAS WEISEL PARTNERS LLC THE DATE OF THIS PROSPECTUS IS , 1999.

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information contained in this document. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Offers and sales of the common stock are subject to restrictions in relation to the United Kingdom, details of which are set out in "Underwriting," and in other jurisdictions. The distribution of this prospectus may also be restricted by law in some jurisdictions.

This prospectus is subject to completion prior to this offering. Among other things, this prospectus describes our company as we currently expect it to exist at the time of this offering. Except as otherwise indicated, all information in this prospectus assumes:

. the underwriter's over-allotment option will not be exercised;

. the cancellation of all of the outstanding ordinary and preference shares of Virata Limited, a company organized in the United Kingdom, the issuance of new ordinary shares of Virata Limited to Virata Corporation, a Delaware corporation, and the issuance of shares of common stock of Virata Corporation to the former shareholders of Virata Limited, each immediately prior to the consummation of this offering; and . a for 1 reverse stock split of our common stock, immediately prior to the consummation of this offering.

Unless the context otherwise requires, the terms "Virata," "RSA," "we," "us" or "our" refer to Virata Limited and its subsidiaries Virata Santa Clara Corporation, a Delaware corporation, and Virata Raleigh Corporation, a Delaware corporation, prior to this offering and the share exchange, and Virata Corporation, a Delaware corporation, and its direct and indirect subsidiaries, Virata Limited, Virata Santa Clara Corporation and Virata Raleigh Corporation, after this offering and the share exchange. The term "you" refers to prospective investors in our common stock.

Virata(R), ATMOS(R) and ATOM(R) are registered trademarks of Virata. ISOS(TM), Proton(TM), Helium(TM), Hydrogen(TM), Lithium(TM) and Beryillium(TM) are our trademarks and may be subject of pending trademark applications. This prospectus also makes reference to trademarks of other companies.

Dealer Prospectus Delivery Obligation Until , 1999 (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

Prospectus Summary

This following summary highlights basic information about us and this offering contained more fully elsewhere in this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read this entire prospectus carefully, including the section entitled "Risk Factors" and the financial statements and the related notes to those statements included in this prospectus. This prospectus contains forward-looking statements that involve risks

and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors described under the heading "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" as well as discussions elsewhere in this prospectus.

Virata Corporation

Virata provides communications processors which are combined with a comprehensive suite of software for digital subscriber line equipment manufacturers. These tightly integrated products enable our customers to develop a diverse range of digital subscriber line, or DSL, equipment including modems, gateways and routers targeted at the broadband access market. We believe our systems expertise, products and support services enable DSL equipment manufacturers to simplify product development, speed time-to-market and focus resources on product differentiation.

Significant growth in demand for broadband access is being driven by consumers and business users who find current dial-up Internet access too slow and faster frame relay or T1/E1 services too expensive. Digital subscriber line, technologies enable service providers to offer a range of affordable broadband access services using the existing copper wire telephone infrastructure.

To meet the demands of the rapidly growing DSL market, original equipment manufacturers, or OEMs, encounter a number of challenges. These include evolving technical standards, an expanding range of feature expectations and shorter product life cycles. In response to these challenges, OEMs are increasingly relying upon third party specialists to supply key technology components including semiconductors and software. However, integration of these individual elements can be a complex, costly and time-consuming task.

The combination of our communications processors and software replaces numerous software elements and semiconductors which would otherwise have to be sourced from multiple vendors and then integrated and tested. Our standards compliant products are based on a flexible architecture that:

. simplifies the addition of features;

. can be used with a range of third party DSL physical layer transceivers; and . offers compelling price/performance.

By adopting our solutions, our customers enjoy numerous benefits including:

. faster time-to-market;

. reduced product cost;

. opportunity to focus their engineering resources on product differentiation;

. ability to design multiple products using different subsets of our modular software; and . re-use of software extensions they develop on future generations of their products.

Our objective is to be the leading supplier of communications processors and integrated software to broadband access OEMs. We intend to achieve this objective by:

. initially focusing on DSL markets;

. leveraging our flexible semiconductor and software architectures to introduce an expanding range of communications processors and software modules;

. licensing our software to all our customers; and . pursuing strategic acquisitions.

We outsource the manufacturing of our semiconductors, which allows us to focus our resources on the design, development and marketing of our products. To date we have licensed our software to 27 companies. These customers have developed, or are developing, 74 designs of which 28 are currently shipping. Leading DSL customers include Netopia, Orckit Communications and Westell Technologies. In July 1998, we completed the acquisition of RSA Communications, our first strategic acquisition.

Our commercial, financial and operations headquarters are in Santa Clara, California. Research and development facilities and sales offices are located in Raleigh, North Carolina, and Cambridge, England. The address of our principal executive office is 2933 Bunker Hill Lane, Suite 201, Santa Clara, California 95054 where the telephone number is (408) 566-1000. Our Internet address on the worldwide web is http://www.virata.com. Information contained on our website does not constitute part of this prospectus.

The Offering

Common stock offered by us..... shares Common stock to be outstanding after the offering..... shares Use of proceeds..... We intend to use the net proceeds of this offering primarily for working capital and general corporate purposes, including expenditures for research and development of new products and sales and marketing efforts. See "Use of Proceeds."

Proposed Nasdaq National Market symbol..... VRTA The common stock outstanding after this offering is based on the number of shares outstanding on August 31, 1999, after giving effect to:

. the cancellation of all of the outstanding ordinary and preference shares of Virata Limited, the issuance of new ordinary shares of Virata Limited to Virata Corporation and the issuance of shares of common stock of Virata Corporation to the former shareholders of Virata Limited; and . a for 1 reverse stock split of our common stock.

These transactions will take place immediately prior to the consummation of this offering and, except for the reverse stock split, will be effected pursuant to a share reconstruction under Section 425 of the United Kingdom Companies Act of 1985. Any securities that are convertible or exercisable into ordinary shares or preference shares of Virata Limited will become convertible or exercisable into shares of our common stock upon consummation of the share reconstruction.

The common stock outstanding after this offering excludes 21,996,978 shares of our common stock which may be issued upon exercise of currently outstanding stock options and warrants outstanding as of August 31, 1999, with a weighted average exercise price of $0.66 per share; and shares of common

stock reserved for issuance under our stock plans. See "Capitalization," "Management--Director Compensation," "--Employee Stock Option Plan" and "-- Employee Stock Purchase Plan" and "Description of Capital Stock."

Summary Consolidated Financial Information (in thousands, except for per share data)

	Year Ended March 31,			Three Months Ended June 30,	
	1997	1998	1999	1998	1999
				(unaudited)	
Consolidated Statement of Operations Data:					
Revenues:					
Semiconductors	$ 2,105	$ 3,281	$ 6,779	$ 2,010	$ 2,066
Systems, license, services and royalty	4,848	5,650	2,477	754	599
Total revenues	6,953	8,931	9,256	2,764	2,665
Total cost of revenues	3,939	3,787	3,997	918	1,273
Gross profit	3,014	5,144	5,259	1,846	1,392
Operating expenses:					
Research and development	3,518	3,987	8,323	1,202	2,549
Sales and marketing	4,753	4,076	2,917	532	923
General and administrative	3,410	4,917	5,567	759	903
Non-recurring charges, amortization of intangibles and stock compensation	--	2,270	7,203	306	460
Total operating expenses	11,681	15,250	24,010	2,799	4,835
Loss from operations	(8,667)	(10,106)	(18,751)	(953)	(3,443)
Interest and other income (expense), net	127	(172)	1594	10	428
Net loss	$(8,540)	$(10,278)	$(17,157)	$ (943)	$(3,015)
Net loss per share:					
Basic and diluted	$ (0.80)	$ (0.90)	$ (1.33)	$ (0.08)	$ (0.23)
Weighted average shares	10,676	11,482	12,881	11,765	13,346
Pro forma net loss per share:					
Basic and diluted			$ (0.21)		$ (0.04)
Weighted average shares			80,900		84,646

As of June 30, 1999 Pro Pro Forma Actual Forma As Adjusted (unaudited)

Consolidated Balance Sheet Data:		
Cash and cash equivalents	$ 6,509	
Working capital	5,180	
Total assets	16,311	
Total long term liabilities	995	
Total stockholders' equity	9,611	

See notes 1 and 12 of the notes to the consolidated financial statements included in this prospectus for an explanation of the determination of the number of shares used in computing per share data.

The pro forma numbers reflect the following:

. the cancellation of all of the outstanding ordinary and preference shares of Virata Limited, the issuance of new ordinary shares of Virata Limited to Virata Corporation and the issuance of shares of common stock of Virata Corporation to the former shareholders of Virata Limited; and . a for 1 reverse stock split of our common stock;

The pro forma as adjusted numbers give effect to our receipt of the net proceeds from the sale of shares of common stock offered in

this offering at an assumed initial public offering price of $ per share, after deducting underwriting discounts and commissions and estimated offering expenses. See "Use of Proceeds" and "Capitalization."

Risk Factors

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations could be harmed. If that happens, the trading price of our common stock could decline, and you may lose all or part of your investment. These risk factors are not intended to represent a complete list of the general or specific risk factors that may affect us.

Because we have a limited operating history selling semiconductors to the digital subscriber line, or DSL, market, we cannot be sure that we can successfully implement our business strategy We were incorporated in June 1993 and until 1995 we were a development stage company focused primarily on product development. From first production revenue shipment in April 1995 through March 1996, we focused on developing and delivering systems-level products primarily for local area network applications. In mid 1996, we began licensing our software suite and selling our semiconductors to developers of broadband access products. In September 1997, we ceased development of our systems-level products and focused exclusively on expanding our software offering and developing additional semiconductors for the broadband marketplace with a focus on the DSL market. Accordingly, we have not had a long history of selling semiconductors to the DSL market or generating significant revenues and many of our semiconductors have only recently been introduced. Furthermore, we have limited historical financial data that can be used in evaluating our business and our prospects and in projecting future operating results. For example, we cannot forecast operating expenses based on our historical results because they are limited, and we are required to forecast expenses in part on future revenue projections. Most of our expenses are fixed in the short term and we may not be able to quickly reduce spending if our revenue is lower than we had projected, therefore net losses in a given quarter would be greater than expected. In addition, our ability to forecast accurately our quarterly revenue is limited due to a number of factors described in detail below, making it difficult to predict the quarter in which sales will occur. You must consider our prospects in light of the risks, expenses and difficulties we might encounter because we are at an early stage of development in a new and rapidly evolving market. Many of these risks are described under the sub-headings below. We may not successfully address any or all of these risks and our business strategy may not be successful.

We have not reported an operating profit since our incorporation and expect future losses; accordingly, we may not be able to achieve profitability, and even if we do become profitable, we may not be able to sustain profitability We have not reported an operating profit for any fiscal year since our incorporation and experienced net losses of approximately $3.0 million, $17.2 million, $10.3 million, and $8.5 million for the three months ended June 30, 1999 and the fiscal years ended March 31, 1999, 1998, and 1997, respectively. We expect to incur net losses for the foreseeable future, and these losses may be

substantial. Further, we expect to incur substantial negative cash flow in the future. Because of continuing substantial capital expenditures and product development, sales, marketing and administrative expenses, we will need to generate significant revenues to achieve profitability and positive cash flow. Even if we do achieve profitability and positive cash flow, we may not be able to sustain or increase profitability or cash flow on a quarterly or annual basis. Our ability to generate future revenues will depend on a number of factors, many of which are beyond our control. These factors include:

. the rate of market acceptance of DSL broadband access;

. the rate of market acceptance of our products and the demand for DSL equipment that incorporates our products;

. changes in industry standards governing DSL technologies;

. the extent and timing of new customer transactions;

. personnel changes, particularly those involving engineering and technical personnel;

. regulatory developments; and . general economic trends.

Due to these factors, we cannot forecast with any degree of accuracy what our revenues will be in future periods or how quickly DSL equipment manufacturers will select our products for use in their systems. In view of these factors, we may not be able to achieve or sustain profitability or positive cash flow.

Our operating results in one or more future periods are likely to fluctuate significantly and may fail to meet or exceed the expectations of securities analysts or investors, which may cause our stock price to decline Our revenues and operating results are likely to fluctuate significantly in the future on a quarterly and an annual basis due to a number of factors, many of which are outside our control. If our operating results do not meet the expectations of securities analysts or investors, our stock price may decline. We cannot be sure that this will not occur because of the numerous factors that could cause our revenues and costs to fluctuate. These factors include the following:

. the timing and size of expenses, including expenses of developing new products and product enhancements;

. the timing and size of semiconductor orders from, and shipments to, our existing and new customers;

. loss of or decrease in sales to a major customer or failure to complete significant transactions;

. unexpected delays in introducing new or enhanced products, including manufacturing delays;

. the volume and average cost of products manufactured;

. loss or reduction in the availability of foundry capacity;

. the average selling prices of our products;

. our ability to attract and retain key personnel;

. commencement of or involvement in litigation, including litigation relating to the use or ownership of intellectual property;

. costs or other non-recurring charges in connection with the acquisition of companies, products or technologies;

. foreign currency and exchange rate fluctuations, which may make our dollar-denominated products more expensive in foreign markets or could expose us to currency rate fluctuation risks if our sales become denominated in foreign currencies; and . general market and global economic conditions.

Variations will also be caused by factors related to the development of the DSL market and the competition we face from other DSL semiconductor suppliers, including:

. the timing and rate of deployment of DSL services by telecommunications service providers;

. the timing and rate of deployment of alternative high-speed data transmission technologies, such as cable modems and high-speed wireless data transmission;

. anticipated decreases in per unit prices as competition among DSL semiconductor suppliers increases;

. announcements of new products, design wins and product enhancements by competitors and the entry of new competitors into our market; and . the level of market penetration of our semiconductors relative to those of our competitors.

The amount and timing of our operating expenses generally will vary from quarter to quarter depending on the level of our actual and anticipated business activities. Research and development expenses will vary as we develop new products. Due to the competitive factors in our market, in the past we have experienced, and we anticipate that we will continue to experience, decreases in the average selling prices of our products. Due to these and other factors, our revenues, expenses and results of operations could vary significantly in the future, and you should not rely upon period-to-period comparisons as indications of future performance.

The markets in which we compete are highly competitive, and we may not be able to compete effectively, especially against companies with greater resources The market for software and communications semiconductor solutions is intensely competitive and characterized by rapid technological change, evolving standards, short product life cycles and price erosion. We expect competition to intensify as current competitors expand their product offerings and new competitors enter the market. We face competition from a variety of vendors, including software and semiconductor companies, which generally vary in size and in the scope and breadth of products and services offered. We also face competition from customers' or prospective customers' own internal development efforts. Many of the companies that compete, or may compete in the future, against us have longer operating histories, greater name recognition, larger installed customer bases and significantly greater financial, technical and marketing resources. These competitors may also have pre-existing relationships with our customers or potential customers. As a result, they may be able to introduce new technologies, respond more quickly to changing customer requirements or devote greater resources to the development, promotion and sale of their products than we can. Our

competitors may successfully integrate the functionality of our software and communication processors into their products and thereby render our products obsolete. Further, in the event of a manufacturing capacity shortage, these competitors may be able to manufacture products when we are unable to do so. Given the highly competitive environment in which we operate, we cannot be sure that any competitive advantages enjoyed by our products would be sufficient to establish and sustain our products in the market. Any increase in price or other competition could result in erosion of our market share, to the extent we have obtained market share, and could harm our business, financial condition and results of operations. We cannot be sure that we will have the financial resources, technical expertise or marketing and support capabilities to continue to compete successfully.

We believe our principal competitors include Alcatel Microelectronics, Analog Devices, Centillium Technology, Conexant Systems, Lucent Technologies, Motorola and Texas Instruments. In addition, there have been a number of announcements by other semiconductor companies including IBM and Intel and smaller emerging companies that they intend to enter the market segments adjacent to or addressed by our products. Further, many of our customers face competition from companies that design their own semiconductors. Because these companies do not purchase all of their semiconductors from suppliers such as us, if these competitors displace our customers in the DSL equipment market, our customers would no longer need our products.

Rapid changes in the market for DSL semiconductors may render our semiconductors obsolete or unmarketable; failure to enhance our existing products or to develop and introduce new products that meet changing customer requirements and emerging industry standards would adversely impact our ability to sell our products and harm our business The markets for our products and services are characterized by rapidly changing technology, short product life cycles, evolving industry standards, changes in customer needs, growing competition and new product introductions. If our product development and enhancements take longer than planned, the availability of our products would be delayed. Any such delay would harm our ability to sell our products and our results of operations and financial condition would be adversely affected. Factors that may affect the market acceptance of our products include the growth and acceptance of broadband access equipment, the price, functionality and availability of competing products and technologies, and the success of our sales efforts and our customers. Our success may depend, in part, on our ability to:

. effectively use and offer leading technologies;

. continue to develop our technical expertise;

. successfully develop, introduce and market new and enhanced products at competitive prices in order to meet changing customer needs;

. anticipate and address evolving feature and service requirements;

. respond effectively to new technological changes or new product announcements by others;

. maintain close working relationships with our key customers; and . influence and respond to changing market and industry standards and other technological changes on a timely and cost-effective basis.

We must address these requirements in a timely and cost-effective manner. We cannot be sure that we will be successful in these pursuits, that the growth in demand will continue or that our products will achieve market acceptance. Our failure to develop and introduce new products that are compatible with industry standards and that satisfy customer requirements or the failure of our products to achieve broad market acceptance would cause serious harm to our business, financial condition and results of operations.

The pursuit of necessary technological advances and the development of new products require substantial time and expense. In addition, enhancements to existing products or the introduction of new products by us or our competitors have the potential to replace or provide lower cost alternatives to our existing products or render these products obsolete, unmarketable or inoperable. The mere announcement of any enhancement or new product could cause potential customers to defer or cancel purchases of existing products and services. Therefore, we cannot be sure that we will be able to recover the costs of the development of our products or succeed in adapting our business to advancements.

Other broadband data transmission technologies may compete effectively with DSL services, which may cause sales of our products to decline and harm our business DSL services are competing with a variety of different broadband data transmission technologies, including cable modems, satellite and other wireless technologies. If any technology that is competing with DSL technology is more reliable, faster, less expensive, reaches more customers or has other advantages over DSL technology, then the demand for our semiconductors may decrease, which would harm our business and operating results.

Substantial sales of our semiconductors will not occur unless telecommunications service providers initiate broad deployment of DSL services The success of our products may depend upon the decision by telecommunications service providers to broadly deploy DSL technologies and the timing of the deployment. Factors that will impact this deployment include:

. a prolonged approval process, including laboratory tests, technical trials, marketing trials, initial commercial deployment and full commercial deployment;

. the development of a viable business model for DSL services, including the capability to market, sell, install and maintain DSL services;

. cost constraints, such as installation costs and space and power requirements at the telecommunications service provider's central office;

. varying and uncertain conditions of the local loop, including the size and length of the copper wire, electrical interference and interference with existing voice and data telecommunications services;

. challenges of interoperability among DSL equipment manufacturers' products;

. evolving industry standards for DSL technologies; and . government regulation.

Although a number of telecommunications service providers have commenced commercial deployment of DSL services using DSL products that incorporate our semiconductors, if these telecommunications service providers do not expand their deployment of DSL services, if additional

telecommunications service providers do not offer DSL services on a timely basis or if there are technical difficulties with the deployment of DSL services, then our business, financial condition and results of operations will be seriously harmed.

Substantial sales of our semiconductors will not occur unless DSL equipment manufacturers incorporate our semiconductors in their products We rely upon DSL equipment manufacturers to design our semiconductors and software into their DSL products. We further rely on these products to be successful, and if they are not, we will not sell our semiconductors in volume quantities. Accordingly, we must anticipate the price, performance and functionality requirements of these DSL equipment manufacturers. We must also successfully develop products that meet these requirements and make these products available on a timely basis and in sufficient quantities. Further, if there is consolidation in the DSL equipment manufacturing industry, or if a small number of DSL equipment manufacturers otherwise dominate the market for DSL equipment, then our success will depend upon our ability to establish and maintain relationships with these market leaders. If we do not anticipate trends in the DSL market and meet the requirements of DSL equipment manufacturers, or if we do not successfully establish and maintain relationships with leading DSL equipment manufacturers, then our business, financial condition and results of operations will be seriously harmed.

Our success depends on our ability to maintain and cultivate relationships with DSL equipment manufacturers We believe that our success in penetrating markets for our products depends on our ability to maintain and cultivate relationships with DSL equipment manufacturers that are leaders in the DSL equipment market or that are designing our products into their network systems. We must anticipate market trends and the price, performance and functionality requirements of these vendors and must successfully develop and manufacture products that meet these requirements. In addition, we must meet the timing requirements of these DSL equipment manufacturers and must make products available to them in sufficient quantities. Accordingly, in selling to DSL equipment manufacturers, we often incur significant expenditures prior to volume sales of new products. Our inability to develop relationships with additional DSL equipment manufacturers would seriously harm our business, financial condition and results of operations.

We depend on third party foundries to manufacture, assemble and test our products; if we are unable to obtain sufficient yields or product reliability, our customer relationships, business, financial condition and results of operations could be adversely affected We do not own or operate a semiconductor fabrication facility. Generally our semiconductor devices are single sourced at a different foundry. We intend to continue to rely on these foundries and other specialist suppliers for all of our manufacturing, assembly and testing requirements for the foreseeable future. However, these foundries are not obligated to supply products to us for any specific period, in any specific quantity or at any specific price, except as may be provided in a particular purchase order that has been accepted by one of them. We have experienced delays and may in the future experience delays in receiving semiconductor devices from these foundries, and we cannot be sure that we will be able to obtain semiconductor devices within the time frames and in the volumes required by us at an affordable cost or at all. Any disruption in availability of our products would significantly harm our business. If we are

required for any reason to seek a new manufacturer of our semiconductors, a new manufacturer of our semiconductors may not be available. Furthermore, switching to a new manufacturer would require six months or more and would involve significant expense and disruption to our business.

From time to time there are shortages in worldwide foundry capacity. In addition, increases in semiconductor demand may limit available foundry capacity worldwide. These shortages, if they occur, could make it more difficult for us to obtain sufficient allocation of manufacturing capacity to meet our manufacturing needs. In addition, these shortages could lengthen our products' manufacturing cycle and cause a delay in the shipments of our products to our customers. Allocation of a foundry's manufacturing capacity may be influenced by a customer's size or the existence of a long-term agreement with the foundry. To address foundry capacity constraints, other semiconductor suppliers that rely on third-party foundries have utilized various arrangements, including equity investments in or loans to independent component manufacturers, in exchange for guaranteed production capacity, joint ventures to own and operate foundries, or "take or pay" contracts that commit a company to purchase specified quantities of components over extended periods. While we are not currently a party to any of these arrangements, we may decide to enter into such arrangements in the future. We cannot be sure, however, that these arrangements will be available to us on acceptable terms or at all. Any of these arrangements could require us to commit substantial capital. The need to commit substantial capital could require us to obtain additional debt or equity financing, which could result in dilution to our earnings or the ownership of our stockholders. We cannot be sure that this additional financing, if required, would be available when needed or, if available, could be obtained on terms acceptable to us.

The manufacture of our products is a highly complex and precise process, requiring production in a highly controlled environment. Changes in the manufacturing processes or the inadvertent use of defective or contaminated materials by a foundry could adversely affect such a foundry's ability to achieve acceptable manufacturing yields and product reliability. If the foundries we currently use do not achieve the necessary yields or product reliability, our customer relationships, business, financial condition and results of operations could be adversely affected.

Our products are fabricated, assembled and tested by third-party subcontractors. This assembly and testing is conducted on a purchase order basis rather than under a long-term agreement. As a result of our reliance on third-party subcontractors to fabricate assemble and test our products, we cannot directly control product delivery schedules, which could lead to product shortages or quality assurance problems that could increase the costs of manufacturing or assembly of our products. Qualification of fabrication, assembly and test subcontractors normally requires a significant investment of time. If the foundries we currently use are unable to provide us with their products on a turnkey basis or if we are otherwise required to find alternative subcontractors, product shipments could be delayed significantly. Any problems associated with the delivery, quality or cost of the fabrication assembly and testing of our products could seriously harm our business, financial condition and results of operations.

We depend on a license from Advanced RISC Machines, or ARM, to manufacture certain of our planned ATOM products and the loss or inability to maintain the license could result in increased costs or delays in the manufacturing of our products Our ATOM products feature embedded ARM RISC

microprocessors and, accordingly, are required to be manufactured under a license from Advanced RISC Machines, the owner of the intellectual property to the ARM RISC microprocessor. In the past, we were required to use foundries with an ARM license for the manufacture of our ATOM products. In June 1999, we obtained a per semiconductor design ARM license, which means that we are now able to select foundry suppliers that best meet our quality, delivery and cost objectives regardless of whether they have their own ARM license or not. With this greater flexibility, we are able to assume more of the manufacturing and quality control responsibilities, including contracting for wafer processing, assembly and testing from separate suppliers. If we lose or are unable to maintain the per semiconductor design license, we would be required to seek alternative fabrication facilities in our manufacturing of our ATOM products. Without the ARM license, the number of fabrication facilities we could use in our manufacturing would be substantially reduced to those fabrication facilities that themselves have been directly licensed by Advanced RISC Machines. Accordingly, the loss of, or our inability to maintain the ARM license may result in increased costs or delays in our ability to manufacture our products and could harm our results of operations.

Our customer base is concentrated, and the loss of one or more of our customers would result in a loss of a significant amount of our revenues A relatively small number of customers account for a large percentage of our total revenues. We expect this trend to continue for the foreseeable future. Our business will be seriously harmed if we do not generate as much revenue as we expect from these customers, experience a loss of any of our significant customers or suffer a substantial reduction in orders from these customers. For the fiscal year ended March 31, 1999, Com21 and Orckit Communications accounted for 22.6% and 15.7%, respectively, of our total revenues. For the three months ended June 30, 1999, Orckit Communications, Com21 and Netopia accounted for 39.8%, 17.2% and 10.2%, respectively, of our total revenues. Our future success depends in significant part upon the decision of our customers to continue to purchase products from us. Furthermore, it is possible that DSL equipment manufacturers may design and develop internally, or acquire, their own semiconductor technology, rather than continue to purchase semiconductors from third parties like us. If we are not successful in maintaining relationships with key customers, and winning new customers, our business would be harmed. In addition, because a significant portion of our business has been and is expected to continue to be derived from orders placed by a limited number of large customers, variations in the timing of these orders can cause significant fluctuations in our operating results.

If we do not achieve design wins with DSL equipment manufacturers, we may be unable to secure sales from these customers in the future Once a DSL equipment manufacturer has designed a supplier's semiconductor into its products, the DSL equipment manufacturer may be reluctant to change its source of semiconductors due to the significant costs associated with qualifying a new supplier. Accordingly, our failure to achieve design wins with DSL equipment manufacturers which have chosen a competitor's semiconductor could create barriers to future sales opportunities with these DSL equipment manufacturers.

Our customers are not subject to any binding agreements and, therefore, may not purchase any of our products, which may harm our business A design win is solely an expression of interest by potential customers in purchasing our products and is not supported by binding commitments of any nature.

Therefore, we cannot be sure that any design win will result in purchase orders for our products, or that these purchase orders will not be later canceled. Our inability to convert design wins into actual sales and any cancellation of a purchase order could harm our business, financial condition and results of operations. Reasons that a design win may not result in a purchase order may include:

. product development delays;

. pricing issues;

. changes in customer product lines;

. availability of competing products;

. inability to deliver products in volume;

. technological obsolescence;

. changes in market needs or preferences; and . changing standards.

We incur expenses based upon projected product needs of our customers, but these customers are not subject to any minimum purchase requirements We work closely with our customers to determine their future product needs and receive a rolling forecast for products. We have incurred and expect to continue to incur expenses based upon these sales forecasts. However, our customer purchase agreements generally contain no minimum purchase requirements and customers typically purchase our products pursuant to short-term purchase orders that may be canceled without charge if notice is given within an agreed- upon period. Therefore, we cannot be sure that the actual product revenues which we will receive will be commensurate with the level of expenses that we will incur based on forecasts we receive from our customers in any future period. As a result, cancellations, deferrals or reductions in pending purchase orders could harm our business, financial condition and results of operations.

Most of our revenues have been and, for the foreseeable future, will be derived from a limited number of products, and the failure of any of these products to gain market acceptance may harm our business For the fiscal year ended March 31, 1999, approximately 21.6% and 10.7%, respectively, of our total revenues were generated from sales of our Hydrogen product and Proton family of products. For the three months ended June 30, 1999, approximately 26.0%, 23.8% and 6.1%, respectively, of our total revenues were generated from sales of our Proton family and Hydrogen and Helium products. We expect that our Proton family will represent a diminishing proportion of our total revenues while a substantial portion of our total revenues will be derived from our Hydrogen, Helium and Lithium products in the foreseeable future. Therefore, broad market acceptance of the Hydrogen, Helium and Lithium products is critical to our success. We cannot be sure that our products will attain broad market acceptance. Any failure to achieve broad market acceptance will harm our business, operating results and financial condition.

We expect that price competition among DSL semiconductor suppliers and volume purchases by large customers will have a negative impact on our gross margins in the future We expect that price competition among DSL semiconductor suppliers and volume purchases of our semiconductors at

discounted prices will have a negative impact on our gross margin for these products. We anticipate that average per unit selling prices of DSL semiconductors will continue to decline as product technologies mature. Since we do not manufacture our own products, we may be unable to reduce our manufacturing costs in response to declining average per unit selling prices. Many of our competitors are larger with greater resources and therefore may be able to achieve greater economies of scale and would be less vulnerable to price competition. Further, we expect that average per unit selling prices of our semiconductors will decrease in the future due to volume discounts to our large customers. These declines in average per unit selling prices will generally lead to declines in gross margins for these products.

Because our products typically have lengthy sales cycles, we may experience substantial delays between incurring expenses related to research and development and the generation of sales revenue and may not ultimately sell a large volume of our products It usually takes more than one year, occasionally more than two years, for us to realize volume shipments of our semiconductor products after we first contact a customer. We first work with customers to achieve a design win, which may take six months or longer, at which time we sell a source code license. Our customers then complete the design, testing and evaluation of their systems and begin the marketing process, a period which typically lasts an additional three to six months or longer. As a result, a significant period of time may elapse between our sales efforts and our realization of revenues, if any, from volume purchasing of our products by our customers. We generally sell our products based on individual purchase orders. Our customers are not obligated by long- term contracts to purchase our semiconductors and can generally cancel or reschedule orders upon short notice.

Achieving a design win with a customer does not create a binding commitment from that customer to purchase our products. Rather, it is a decision by a customer to use our products in the design process of their products. A customer can choose at any time to discontinue using our products in their designs or product development efforts. If our products are chosen to be incorporated into a customer's products, we may still not realize significant revenues from that customer if their products are not commercially successful. While we have a strategy of licensing and partnering with as many key participants in our markets as possible, some customers will be more successful than others in developing and marketing their products that incorporate our semiconductor products and it is difficult for us to predict which of these customers will generate revenues for us. Our semiconductor product sales are almost completely dependent upon the relative success of our customers in the marketplace for broadband access equipment.

If we deliver products with defects, our credibility will be harmed, and the sales and market acceptance of our products will decrease Our products are complex and may contain errors, defects and bugs when introduced. If we deliver products with errors, defects or bugs, our credibility and the market acceptance and sales of our products could be significantly harmed. Further, the nature of our products may also delay the detection of any such error or defect. If our products contain errors, defects and bugs, then we may be required to expend significant capital and resources to alleviate these problems.

This could result in the diversion of technical and other resources from our other development efforts. Any actual or perceived problems or delays may adversely affect our ability to attract or retain customers.

We may be subject to product returns and product liability claims resulting from defects in our products; product returns and product liability claims could result in the failure of our products to attain market acceptance and could harm our business The occurrence of any defects, errors or failures in our products could lead to product liability claims as a result of product liability lawsuits against us or against our customers. We have agreed to indemnify certain of our customers in certain limited circumstances against liability from defects in our products. A successful product liability claim could seriously harm our business, financial condition and results of operations. Although we have not experienced any product liability claims to date, the sale and support of our products entail the risk of these claims. A successful product liability claim brought against us could be expensive, divert the attention of management from ordinary business activities and, correspondingly, harm our business.

A substantial portion of our sales are generated outside the United States, and difficulties associated with international operations could harm our business One of our principal subsidiaries is incorporated under the laws of, and its principal offices are located in, the United Kingdom. Thus, we are influenced by the political, economic and other conditions affecting the United Kingdom. For the fiscal year ended March 31, 1999, we generated approximately 40.3% of our revenues from sources outside the United States, including Israel, Europe and Asia. For the fiscal year ended March 31, 1999, 16.5% and 9.8%, respectively, of our total revenues were derived from customers based in Israel and Europe. In the three months ended June 30, 1999, 40.0% of our total revenues were derived from customers based in Israel. We expect that sales to these international customers will continue to account for a significant portion of our total revenues for the foreseeable future. Accordingly, we are subject to risks inherent in our international business activities, including:

. tariffs and other trade barriers, including current and future import and export restrictions;

. potentially adverse tax consequences, including restrictions on the repatriation of earnings;

. risks that changes in foreign currency exchange rates will make our products comparatively more expensive;

. risks related to international political instability and economic turbulence;

. delays or difficulties in collecting accounts receivables;

. difficulties in staffing and managing international operations;

. burdens of complying with a wide variety of foreign laws, particularly with respect to intellectual property, and license requirements;

. delays or difficulties obtaining approvals for products from foreign governmental agencies which regulate our industry;

. unexpected changes in regulatory requirements;

. difficulties in protecting intellectual property rights in certain foreign countries; and . limited ability to enforce agreements and other rights in certain foreign countries.

Any interruption or curtailment of trade between the countries in which we operate and their present trading partners or a significant downturn in the economic or financial condition of these countries could seriously harm our business, financial condition and results of operations.

We continue to rapidly and significantly expand our operations, and our failure to manage growth could harm our business and adversely affect our results of operations and financial condition We have rapidly and significantly expanded our operations, including the number of our employees, the geographic scope of our activities and our product offerings. We expect that further significant expansion will be required to address potential growth in our customer base and market opportunities. Any failure to manage growth effectively could harm our business and adversely affect our operating results and financial condition. We cannot be sure that we will be able to do any of the following, which we believe are essential to successfully manage the anticipated growth of our operations:

. improve our existing and implement new operational, financial and management information controls, reporting systems and procedures;

. hire, train and manage additional qualified personnel;

. expand and upgrade our core technologies; and . effectively manage multiple relationships with our customers, suppliers and other third parties.

In the future, we may also experience difficulties meeting the demand for our products. The development of equipment using our products requires training. If we are unable to provide training and support for our products, more time may be necessary to complete the implementation process and customer satisfaction may be adversely affected. In addition, our suppliers may not be able to meet increased demand for our products. We cannot be sure that our systems, procedures or controls will be adequate to support the anticipated growth in our operations.

Our future success will depend in part on our ability to protect our proprietary rights and the technologies used in our principal products, and if we do not enforce and protect our intellectual property or if others bring infringement claims against us, our business would be harmed We rely primarily on a combination of patents, copyrights, trademarks, trade secret laws, contractual provisions, licenses and maskwork protection to protect our intellectual property. We also enter into confidentiality agreements with our employees, consultants and customers and seek to control access to, and distribution of, our other proprietary information. However, these measures afford only limited protection. There is no guarantee that our safeguards will protect our intellectual property and other valuable competitive information. Our failure to adequately protect our proprietary rights may harm our business. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use trade secrets or other information that we regard as proprietary.

Our means of protecting our proprietary rights in the United Kingdom, the United States or elsewhere may not be adequate, and competitors may independently develop similar technologies. In addition, the laws of some countries do not protect our proprietary rights as fully as do the laws of the United Kingdom or the United States. Issued patents may not preserve our proprietary position. Even if they do, competitors or others may develop technologies similar to or superior to our own.

Moreover, through our participation in various industry groups, we have entered into cross-licenses for intellectual property necessary to the implementation of certain types of standards-compliant products. Such cross- licenses may limit our ability to enforce our intellectual property rights against competitors.

We may become involved in litigation over proprietary rights. In the event of an adverse result in any future litigation with third parties relating to proprietary rights, we could be required:

. to pay substantial damages, including treble damages if we are held to have willfully infringed;

. to halt the manufacture, use and sale of infringing products;

. to expend significant resources to develop non-infringing technology; or . to obtain licenses to the infringing technology.

Licenses may not be available from any third party that asserts intellectual property claims against us, on commercially reasonable terms, or at all. In addition, litigation frequently involves substantial expenditures and can require significant management attention, even if we ultimately prevail. However, we cannot be sure that we would be able to successfully resolve such disputes in the future.

In addition, the industries in which we compete are characterized by numerous allegations of patent infringement among competitors. Such an infringement claim could be asserted against us or by us in the future. The defense or prosecution of any such claim could result in us incurring substantial costs and diverting significant resources away from our operations. Furthermore, if a claim is decided against us, we may be required to pay monetary damages, to cease the use of the infringing technology, lose a competitive advantage or expend significant resources to develop non-infringing technology or obtain licenses to the infringing technology. Such an outcome could harm our business, financial condition and results of operations.

We are not currently aware of any potential infringement of a third party's intellectual property rights on our part arising from the design of the hardware portion of our products. We believe, however, that in order to comply with standards such as the International Telecommunications Union V.34 and V.90 standards or the Universal ADSL Working Group G.lite standard, the software embedded in our current and planned future products may use the proprietary technology of the various parties advancing or promoting these standards. Where this is the case, the owner of such intellectual property must provide a license upon a reasonable terms which may include the payment of a reasonable royalty. The cumulative effect of those royalties could harm our results of operations or financial condition.

Our executive officers and key personnel are critical to our business, and these officers and personnel may not remain with us in the future; our success will depend on the continued performance of our key personnel and our ability to attract and retain additional qualified personnel Our success depends to a significant degree upon the continued contributions of our executive management team, and our technical, marketing, sales customer support and product development personnel. The loss of personnel could significantly harm our business, financial condition and results of operations.

Because DSL technology is specialized and complex, our success depends upon our ability to attract, train and retain qualified personnel, including qualified technical, marketing and sales personnel. However, the competition for personnel is intense and we may have difficulty attracting and retaining such personnel. In addition, companies in the communications, software and semiconductor industries have frequently made unfair hiring practices claims against competitors who have hired away such companies' personnel. We cannot be sure that these claims will not be made against us in the future as we seek to hire qualified personnel, or that any of these claims would be decided in our favor. We may incur substantial costs in defending ourselves against any such claims, regardless of their merits.

We may engage in future acquisitions that could dilute our stockholders' equity and harm our business, results of operations and financial condition As part of our business strategy, we expect to review opportunities to acquire other businesses or products that would complement our existing product offerings, augment our market coverage or enhance our technological capabilities. Although we have no current agreements or negotiations underway with respect to any material acquisitions, we may make acquisitions of businesses, products or technologies in the future. However, we cannot be sure that we will be able to locate suitable acquisition opportunities. Future acquisitions by us could result in:

. issuances of equity securities that would dilute our current stockholder's percentages ownership;

. large one-time write-offs;

. the incurrence of debt and contingent liabilities;

. difficulties in the assimilation of operations, personnel, technologies, products and the information systems of the acquired companies;

. diversion of management's attention from other business concerns;

. contractual disputes;

. risks of entering geographic and business markets in which we have no or limited prior experience; and . potential loss of key employees of acquired organizations.

Any of the above could seriously harm our results of operations or the price of our stock. We cannot be sure that we will be able to successfully integrate any businesses, products, technologies or personnel that might be acquired in the future. Our failure to do so could seriously harm our business, financial condition and results of operations.

If our software and hardware products or our internal systems are not Year 2000 compliant, the Year 2000 issue could seriously harm our business, financial condition, liquidity and results of operations The term "Year 2000 issue" is a general term used to describe the various problems that may result from the improper processing of dates and date- sensitive calculations by computers and other machinery as the Year 2000 is approached and reached. These problems generally arise from the fact that most of the world's computer hardware and software have historically used only two digits to identify the year in a date. As a result, date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. These problems may also arise from other sources as well, such as the use of special codes and conventions in software that make use of the date field. If not corrected, these electronic systems could fail or create erroneous results when addressing dates on and after January 1, 2000.

As a result of the Year 2000 issue, we may experience serious unanticipated problems and costs caused by undetected errors or defects in the technology used in our software and hardware products and internal systems. In addition, we may be required to defend our products or services in legal proceedings, and we cannot guarantee that we will remain free of Year 2000 related disputes. If our software and hardware products or our internal systems are not Year 2000 compliant, the Year 2000 issue could seriously harm our business, financial condition, liquidity and results of operations. Until the Year 2000 occurs, we cannot be sure that we will not be affected by the Year 2000 issue.

Our products and those of our customers are subject to government regulations, and changes in current or future laws or regulations that negatively impact our products and technologies could harm our business The jurisdiction of the Federal Communications Commission, or the FCC, extends to the entire U.S. communications industry, including our customers and their products and services that incorporate our products. Future FCC regulations affecting the U.S. broadband access services industry, our customers or our products may harm our business. For example, FCC regulatory policies that affect the availability of data and Internet services may impede our customers' penetration into certain markets or affect the prices that they are able to charge. In addition, international regulatory bodies have introduced new regulations for the communications industry. Delays caused by our compliance with regulatory requirements may result in order cancellations or postponements of product purchases by our customers, which would harm our business and adversely affect our results of operations and financial condition.

There has been no prior market for our common stock and our stock price may decline after this offering Prior to this offering, you could not buy or sell our common stock on a public market. An active trading market for our common stock may not develop or be sustained after this offering. The initial public offering price will be determined by negotiation among us and representatives of the underwriters and may not be indicative of the price that will prevail in the open market after this offering. The market price of our shares of common stock is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control, including:

. actual or anticipated variations in our results of operations;

. changes in financial estimates of our revenues and operating results by securities analysts;

. changes in conditions and trends in the communications computer industries and in the market valuations of integrated circuit companies;

. fluctuations in the valuation of companies perceived by investors to be comparable to us;

. unexpected delays in introducing new or enhanced products, including manufacturing delays;

. announcements of new products, design wins and product enhancements by competitors and the entry of new competitors into our market;

. loss of or decrease in sales to a major customer or failure to complete significant transactions;

. loss or reduction in the availability of foundry capacity;

. our ability to attract and retain key personnel;

. future sales of our common stock;

. inconsistent trading volume levels of our stock;

. commencement of or involvement in litigation, including litigation relating to the use or ownership of intellectual property; and . general market and global economic conditions.

Furthermore, the stock markets, and in particular the Nasdaq stock market, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our common stock.

We could be subject to class action litigation due to stock price volatility, which, if it occurs, will distract management and result in substantial costs, and could result in judgments against us In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of their securities. We may be the target of similar litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources, which could cause serious harm to our business, financial condition and results of operations.

Our current stockholders will benefit from this offering, and you will experience immediate dilution The initial public offering price is expected to be substantially higher than the current book value per share of our outstanding common stock. Stockholders existing as of June 30, 1999 have paid an average price of $0.68 per share for their common stock, and the pro forma net tangible book value as of that date was per share, after giving effect to:

. the cancellation of all of the outstanding ordinary and preference shares of Virata Limited, the issuance of new ordinary shares of Virata Limited to Virata Corporation and the issuance of shares of common stock of Virata Corporation to the former shareholders of Virata Limited; and . a for 1 reverse stock split of our common stock.

After giving effect to the sale of shares of our common stock in this offering at an offering price of $ per share, our pro forma as adjusted net tangible book value as of June 30, 1999, would have been $ per share. As a result, investors purchasing our common stock will incur immediate dilution of approximately $ per share in the book value of our common stock from the price they pay for our common stock. In addition, we have issued options to acquire common stock at prices significantly below the initial public offering price. To the extent these outstanding options are ultimately exercised, there will be further dilution to investors in this offering.

Our principal stockholders and management have the ability to control stockholder votes, and this control could adversely affect our stock price or lessen any premium over market price that an acquiror might otherwise pay Immediately following the offering, our officers and directors and their affiliates will own or control approximately % of our common stock (after giving effect to the exercise of any outstanding options). Accordingly, our officers, directors and their affiliates, as a group, have the ability to control the election of a majority of the members of our board of directors and the outcome of corporate actions requiring stockholder approval. This concentration of ownership may have the effect of delaying, deferring or preventing a change in control of us, or may impede a merger, consolidation, takeover or other business combination involving us. This concentration of ownership could also adversely affect our stock's market price or lessen any premium over market price that an acquiror might otherwise pay.

Provisions of our charter documents and Delaware law could prevent or delay a change in control of us and may reduce the market price of our common stock Certain provisions of our certificate of incorporation and bylaws and the provisions of Delaware law could have the effect of delaying, deferring or preventing our acquisition. For example, we have authorized but unissued shares of preferred stock which could be used to fend off a takeover attempt, our stockholders may not take actions by written consent, our stockholders are limited in their ability to make proposals at stockholder meetings and our directors may be removed only for cause and upon the affirmative vote of at least 80% of our outstanding voting shares.

We have broad discretion to use the offering proceeds, and how we invest these proceeds may not increase our profits or market value The principal purposes of this offering are to increase our equity capital, to create a public market for our shares, to facilitate our future access to public equity markets and to provide increased visibility and credibility for us in a marketplace in which many of our current and potential competitors are or are expected to be publicly held companies. As of the date of this prospectus, we have no specific plans to use the net proceeds from this offering other than for general corporate purposes. We may use a portion of the net proceeds to acquire complementary products, technologies or businesses. However, we currently have no commitments or agreements and are not involved in any negotiations to do so. We may also apply the net proceeds in ways which may not increase our profitability or our market value. Pending application of the net proceeds, they may be placed in short-term, investment-grade, interest- bearing securities that do not produce income or that lose value. Accordingly, our management will have considerable discretion in the application of the net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately.

There are substantial shares of common stock eligible for future sale, and sales of shares of our common stock may depress our stock price Upon completion of the offering, we will have approximately shares of common stock outstanding and shares outstanding if we issue shares upon exercise of the underwriters' over-allotment option. All of these shares will be freely tradable without restriction or further registration under the federal securities laws, except for shares purchased in this offering by or held by our affiliates, as that term is defined in Rule 144 of the Securities Act of 1933.

Our stockholders are generally limited by lock-up agreements restricting their ability to sell shares of our common stock. Under these agreements, these security holders cannot sell or otherwise dispose of any shares of our common stock for a period of at least 180 days after the date of this prospectus without the prior written consent of Credit Suisse First Boston. When these lock-up agreements expire, these shares will be eligible for sale without restriction, provided that shares held by our affiliates may not be sold in the public market without registration under the Securities Act or in compliance with an applicable exemption from registration as provided in Rule 144 or 701 under the Securities Act.

In addition, as of August 31, 1999 there were outstanding options to purchase 21,996,978 shares of our common stock. Our option holders are also subject to lock-up agreements restricting their ability to sell shares of our common stock underlying the options. Under these agreements, these security holders cannot sell or otherwise dispose of any shares of our common stock for a period of at least 180 days after the date of this prospectus without the written consent of Credit Suisse First Boston. When these lock-up agreements expire, the shares underlying the options will be eligible for sale in accordance with their vesting schedules and in compliance with an applicable exemption as provided in Rule 144 or Rule 701 of the Securities Act.

Furthermore, some of our stockholders, which hold approximately 75,463,729 shares of common stock, have been granted registration rights with respect to their shares of common stock. In connection with any registered offering, such shareholders have agreed not to transfer any shares, or any other securities convertible into or exercisable into shares, for a period of up to 180 days from the date of such offering, provided that we and our officers and directors will also be bound by a similar agreement. In the event of a public offering of shares, the sale of a substantial number of shares, particularly by our directors and officers, or the perception that this sale could occur, could have an adverse effect on the price of our common stock.

We may need to raise additional capital in the future, and if we are unable to secure adequate funds on terms acceptable to us, we may be unable to execute our business plan We expect the net proceeds from this offering, our current cash and cash equivalents and cash from commercial borrowing availability under our credit facility will meet our working capital and capital expenditure needs for at least the next twelve months. If the proceeds of this offering, together with our existing cash balances and cash flow expected from future operations, are not sufficient to meet our liquidity needs, we will need to raise additional funds. If adequate funds are not available on acceptable terms or at all, we may not be able to take advantage of market opportunities, to develop new products or to otherwise respond to competitive pressures. This inability would harm our business. In addition, we expect from time to time to review potential acquisitions that would complement our existing product offerings or enhance our

technical capabilities. While we have no current agreements or negotiations underway with respect to any potential acquisition, any future transaction of this nature could require potentially significant amounts of capital. Funds may not be available at the time or times needed, or available on terms acceptable to us.

Further, if we issue equity securities, the ownership percentage of our stockholders would be reduced, and the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If we cannot raise needed funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, which could seriously harm our business, operating results and financial condition.

Special Note Regarding Forward Looking Statements

This prospectus, including the sections entitled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," contains forward-looking statements within the meaning of the federal securities laws. These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include, among other things, those listed under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," as well as elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue," or the negative of these terms or other comparable terminology. These statements are only predictions and may be inaccurate. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined under "Risk Factors." These factors may cause our actual results to differ materially from any forward- looking statement.

Although we believe that 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 these statements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

Use of Proceeds

Our net proceeds from the sale of the of common stock offered by us are estimated to be approximately $, based on an assumed initial public offering price per share of $, and after deducting estimated underwriting discounts and commissions and offering expenses payable by us. If

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the underwriters exercise the over-allotment option in full, our net proceeds
are estimated to be $        . See "Underwriting."
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We intend to use the net proceeds of this offering primarily for working capital and general corporate purposes, including expenditures for research and development of new products and sales and marketing efforts. In addition, we may use a portion of the net proceeds to acquire complementary products, technologies or businesses; however, we currently have no commitments or agreements and are not involved in any negotiations to do so. Pending use of the net proceeds of this offering, we intend to invest the net proceeds in interest-bearing, investment-grade securities.

Dividend Policy

We have never declared nor paid any dividends on our capital stock. We currently intend to retain any future earnings for use in the operation and expansion of our business and we do not anticipate paying any dividends on our capital stock in the foreseeable future. Additionally, our line of credit currently prohibits the payment of dividends.

Capitalization

The table below sets forth the following information:

. our capitalization as of June 30, 1999, after giving effect to the cancellation of all of the outstanding ordinary and preference shares of Virata Limited, the issuance of new ordinary shares of Virata Limited to Virata Corporation and the issuance of shares of common stock of Virata Corporation to the former shareholders of Virata Limited;

. our capitalization as of June 30, 1999, after giving pro forma effect to a for 1 reverse stock split of our common stock immediately prior to the consummation of this offering.

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.  our pro forma capitalization as of June 30, 1999, as adjusted to give
   effect to the sale of                 shares of common stock offered in
   this offering at an assumed offering price of $       per share, after
   deducting underwriting discounts and commissions and estimated offering
   expenses.
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The capitalization information in the table below is qualified by the more detailed consolidated financial statements and related notes beginning on page F-1 of this prospectus. The table should be read in conjunction with those consolidated financial statements and related notes and the sections of this prospectus titled "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

As of June 30, 1999 Pro Forma Actual Pro Forma As Adjusted (in thousands, except per share data) (unaudited) Capital lease obligations, long-term..... $ 995 $ 995 $995 Stockholders' equity (deficit): Common Stock, $0.02 par value per share, 95,000,000 shares authorized; 13,348,644 shares issued and outstanding actual; shares issued and outstanding pro forma; shares issued and outstanding pro forma as adjusted..... 211 -- -- Convertible Preferred Stock, $0.02 par value per share,

86,100,000 shares authorized; 51,431,179 shares issued and outstanding actual, no shares issued and outstanding pro forma and pro forma as adjusted..... 811 -- -- Additional paid-in capital..... 63,611 63,611 Accumulated other comprehensive income loss.... (47) (47) Unearned stock compensation..... (1,332) (1,332) Accumulated deficit..... (53,643) (53,643) Total stockholders' equity..... 9,611 9,611 Total Capitalization..... $ 10,606 $ 10,606 $ The common stock outstanding after this offering is based on the number of shares outstanding on June 30, 1999, after giving effect to:

. the cancellation of all of the outstanding ordinary and preference shares of Virata Limited, the issuance of new ordinary shares of Virata Limited to Virata Corporation and the issuance of shares of common stock of Virata Corporation to the former shareholders of Virata Limited; and . a for 1 reverse stock split of our common stock.

These transactions will take place immediately prior to the consummation of this offering and, except for the reverse stock split, will be effected pursuant to a share reconstruction under Section 425 of the United Kingdom Companies Act of 1985. Any securities that are convertible or exercisable into ordinary shares or preference shares of Virata Limited will become convertible or exercisable into shares of our common stock upon consummation of the share reconstruction.

The common stock outstanding after this offering excludes 22,442,583 shares of our common stock which may be issued upon exercise of currently outstanding stock options and warrants outstanding as of June 30, 1999, with a weighted average exercise price of $0.66 per share; and shares of common stock reserved for issuance under our stock plans. See "Management--Director Compensation", "--Employee Stock Option Plan" and "--Employee Stock Purchase Plan" and "Description of Capital Stock."

Dilution

As of June 30, 1999, our pro forma net tangible book value was approximately $6.5 million, or $ per share of our common stock. Pro forma net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of our common stock outstanding. Dilution in net tangible book value per share represents the difference between the amount per share of common stock paid by purchasers of common stock in this offering and the net tangible book value per share of common stock immediately after this offering. Our pro forma net tangible book value as of June 30, 1999 is calculated after giving effect to:

. the cancellation of all of the outstanding ordinary and preference shares of Virata Limited, the issuance of new ordinary shares of Virata Limited to Virata Corporation and the issuance of shares of common stock of Virata Corporation to the former shareholders of Virata Limited; and . a for 1 reverse stock split of our common stock.

Our pro forma as adjusted net tangible book value as of June 30, 1999 was approximately million, or per share of our common stock, after giving effect to the receipt of the net proceeds from the sale of the shares of common stock offered by us, assuming an initial public offering price of $ per share and

after deducting the estimated underwriting discounts and commissions and estimated offering expenses.

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   This amount represents an immediate increase in pro forma net tangible book
value of $            per share to the existing stockholders and an immediate
dilution of $            per share to purchasers of common stock in the
offering. The following table illustrates this per share dilution.
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Assumed initial public offering price per share..... $ Pro forma net tangible book value per share as of June 30, 1999.. $ Increase in net tangible book value per share attributable to new investors..... Pro forma as adjusted net tangible book value per share after the offering..... Dilution in net tangible book value per share to new investors..... $ The following table summarizes, as of June 30, 1999, the difference between the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid by existing stockholders and to be paid by new investors purchasing shares of common stock in this offering, before deducting the underwriting discounts and commissions and estimated expenses payable by us, at an assumed initial public offering price of $ per share.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
	(in thousands, except percentages and per share data)				
Existing stockholders.....	90,611	%	$61,242	%	$0.68
New investors.....					
Total.....		100%		$100%	

The foregoing computations are based on the number of shares of common stock outstanding on June 30, 1999, after giving effect to:

. the cancellation of all of the outstanding ordinary and preference shares of Virata Limited, the issuance of new ordinary shares of Virata Limited to Virata Corporation and the issuance of shares of common stock of Virata Corporation to the former shareholders of Virata Limited; and . a for 1 reverse stock split of our common stock.

These transactions will take place immediately prior to the consummation of this offering and, except for the reverse stock split, will be effected pursuant to a share reconstruction under Section 425 of the United Kingdom Companies Act of 1985. Any securities that are convertible or exercisable into ordinary shares or preference shares of Virata Limited will become convertible or exercisable into shares of our common stock upon consummation of the share reconstruction.

The common stock outstanding after this offering excludes 22,442,583 shares which may be issued upon exercise of currently outstanding stock options and warrants outstanding as of June 30, 1999, with a weighted average exercise price of $0.66 per share; and shares of common stock reserved for issuance under our stock plans. See "Capitalization," "Management--Director Compensation", "--Employee Stock Option Plan" and "--Employee Stock Purchase Plan" and "Description of Capital Stock."

Selected Consolidated Financial Data

The following selected consolidated financial data should be read with the consolidated financial statements and related notes beginning on page F-1 of this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 31 of this prospectus. The selected consolidated statement of operations data for each of the three fiscal years ended March 31, 1997, 1998 and 1999 and selected consolidated balance sheet data as of March 31, 1998 and 1999 are derived from, and qualified by reference to, the audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated statement of operations data for each of the two fiscal years ended March 31, 1995 and 1996 and selected consolidated balance sheet data as of March 31, 1995, 1996 and 1997 are derived from audited financial statements not included in this prospectus. Information for the fiscal year ended March 31, 1999 includes the results of operations for RSA Communications, Inc. only since July 17, 1998, the closing date of the acquisition. For information showing our unaudited pro forma results of operations including RSA Communications, Inc. for the fiscal year ended March 31, 1999, see Virata Corporation Pro Forma Combined Financial Information on page F-33.

The selected consolidated statement of operations data for the three months ended June 30, 1998 and 1999 and the selected consolidated balance sheet data as of June 30, 1999 are derived from unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared by us on a basis consistent with our audited consolidated financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of our results of operations and financial position as of and for those periods.

	Year Ended March 31,					Three Months Ended June 30,	
	1995	1996	1997	1998	1999	1998	1999
						(unaudited)	
	(in thousands, except per share data)						
Consolidated Statement of Operations Data:							
Revenues:							
Semiconductors	$ --	$ --	$ --	$ 505	$ 2,784	$ 675	$ 1,419
License	--	85	971	1,570	1,628	994	274
Services and royalty	226	333	1,134	1,206	2,367	341	373
Systems	--	2,424	4,848	5,650	2,477	754	599
Total revenues	226	2,842	6,953	8,931	9,256	2,764	2,665
Cost of revenues:							
Semiconductors	--	--	--	325	2,421	419	811
License	--	--	--	--	--	--	--
Services and royalty	100	55	185	192	528	55	138
Systems	--	1,854	3,754	3,270	1,048	444	324
Total cost of revenues	100	1,909	3,939	3,787	3,997	918	1,273
Gross profit	126	933	3,014	5,144	5,259	1,846	1,392
Operating expenses:							
Research and development	3,587	4,402	3,518	3,987	8,323	1,202	2,549
Sales and marketing	365	4,037	4,753	4,076	2,917	532	923

General and administrative.....	1,278	2,096	3,410	4,917	5,567	759	903
Restructuring costs....	--	--	--	1,871	--	--	--
Amortization of intangible assets.....	--	--	--	--	549	--	194
Amortization of stock compensation.....	--	--	--	399	1,394	306	266
Acquired in-process research and development.....	--	--	--	--	5,260	--	--
Total operating expenses.....	5,230	10,535	11,681	15,250	24,010	2,799	4,835
Loss from operations....	(5,104)	(9,602)	(8,667)	(10,106)	(18,751)	(953)	(3,443)
Interest and other income (expense), net..	4	264	127	(172)	1,594	10	428
Net loss.....	$(5,100)	$(9,338)	$(8,540)	$(10,278)	$(17,157)	$ (943)	$(3,015)
Net loss per share:							
Basic and diluted.....	$ (0.48)	$ (0.49)	$ (0.80)	$ (0.90)	$ (1.33)	$ (0.08)	$ (0.23)
Weighted average shares.....	10,669	19,140	10,676	11,482	12,881	11,765	13,346
Pro forma net loss per share:							
Basic and diluted.....					$ (0.21)		$ (0.04)
Weighted average shares.....					80,900		84,646

March 31, ---------- June 30, 1995 1996 1997 1998 1999 1999 (unaudited) (in thousands)

Consolidated Balance Sheet Data:						
Cash and cash equivalents.....	$ 451	$1,315	$ 3,752	$ 767	$ 8,616	$ 6,509
Working capital.....	(3,206)	451	6,346	(3,653)	8,042	5,180
Total assets.....	2,086	4,422	12,066	5,950	19,183	16,311
Total long term liabilities.....	--	48	875	738	1,130	995
Total stockholders' equity (deficit).....	(2,129)	1,850	6,857	(3,085)	12,715	9,611

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

This section of this prospectus includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. We use words such as "anticipates," "believes," "expects," "future," and "intends," and similar expressions to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from historical results or our predictions. These risks are described in "Risk Factors" and elsewhere in this prospectus. See "Special Note Regarding Forward-Looking Statements."

Overview

We were incorporated in June 1993 in Cambridge, England, as a spin-out from the Olivetti Research Laboratory (now AT&T Laboratories). Until 1995, we were a development stage company focused primarily on product development. From first production revenue shipment in April 1995 through March 1996, we focused on developing and delivering ATM-based, board-level systems primarily for local area network applications. In mid 1996, we began licensing our software suite and selling our semiconductors to developers of broadband access products. In September 1997, we ceased development of our systems products and focused exclusively on expanding our software offering and developing additional semiconductors for the broadband marketplace with a focus on the DSL market. We recently moved our corporate headquarters from Cambridge, England to Santa Clara, California.

We generate revenues from sales of semiconductors, systems-level products, software licenses, maintenance, royalties and related design services. Semiconductor revenues have come from two sources, our Proton family of ASIC products and our ATOM family of ASSPs. An equipment manufacturer, or OEM, licenses our software, which permits them to purchase our semiconductors for use in their products. We support our licensee customers through the sale of maintenance contracts and design services. Since September 1997, we have sold our systems-level products primarily to one customer, and we expect sales of these products to decline. We sell our products through a direct sales force, which we believe most effectively allows us to serve our customers. We also utilize a sales representative in Taiwan.

Revenues from the sale of both semiconductors and systems are recognized upon shipment to customers. Allowances are provided for estimated returns at the time of shipment. We recognize software license revenues under Statement of Position, or SOP, 97-2, Software Revenue Recognition, and SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions. When contracts contain multiple elements and vendor-specific objective evidence exists for all undelivered elements, we account for the delivered elements in accordance with the "Residual Method" prescribed by SOP 98-9. Software licenses are generally recognized as revenue upon shipment of the software product. In the event that we grant our customers the right to specified upgrades, license revenue is deferred until delivery of the specific upgrade. If vendor-specific objective evidence of fair value does not exist, then the entire license fee is deferred until the delivery of the specified upgrade. We recognize revenues from maintenance and support services provided to licensees ratably over the term of the agreement, generally one year, and recognize revenues from design services provided to OEMs as the services are performed.

It usually takes more than one year, occasionally more than two years, for us to realize volume shipments of our semiconductor products after we first contact a customer. We first work with customers to achieve a design win, which may take six months or longer, at which time we sell a source code license. Our customers then complete the design, testing and evaluation of their systems and begin the marketing process, a period which typically lasts an additional three to six months or longer. As a result, a significant period of time may elapse between our sales efforts and our realization of revenues, if any, from volume purchases of our products by our customers. We generally sell our products based on individual purchase orders. Our customers are not obligated by long- term contracts to purchase our semiconductors and can generally cancel or reschedule orders upon short notice.

Achieving a design win with a customer does not create a binding commitment from that customer to purchase our products. Rather, it is a decision by a customer to use our products in the design process of their products. A customer can choose at any time to discontinue using our products in their designs or product development efforts. Even if our products are chosen to be incorporated into a customer's products, we may still not realize significant revenues from that customer if their products are not commercially successful. We have a strategy of licensing and partnering with as many key participants in our markets as possible, and we have achieved a significant number of design wins. Nevertheless, some customers will be more successful than others in developing and marketing their products that incorporate our semiconductor products, and it is difficult for us to predict which of these customers will generate revenues for us. Our semiconductor product sales are almost completely dependent upon the relative success of our customers in the marketplace for broadband access products.

We have spent considerable resources developing our Beryllium product for the G.lite market, and we are just beginning to work with potential customers for this product. Our future success will depend, in part, on our successful entry into the G.lite market. However, we do not expect to know whether we will realize significant commercial shipments of Beryllium until the second half of 2000.

Our revenues to date have been concentrated with a small number of customers. We expect this concentration to continue for the foreseeable future. For the fiscal year ended March 31, 1999, Com21 and Orckit Communications accounted for 22.6% and 15.7%, respectively, of our total revenues. For the three months ended June 30, 1999, Orckit Communications, Com21 and Netopia accounted for 39.8%, 17.2% and 10.2%, respectively, of our total revenues.

International revenues accounted for 44.2% of total revenues for the fiscal year ended March 31, 1998 and 40.3% for the fiscal year ended March 31, 1999. International revenues are denominated solely in U.S. dollars, which reduces our exposure to fluctuations in revenues attributable to changes in foreign currency exchange rates. However, we experience risks inherent in international business. These risks include extended collection time for receivables, reduced ability to enforce contractual obligations and reduced protection of our intellectual property. Our material costs are denominated in U.S. dollars and our operating expenses are split between U.S. dollars and British pounds sterling.

Our gross margin has fluctuated significantly due primarily to product mix. For the fiscal year ended March 31, 1999, our semiconductor gross margin was 13.0%, our license gross margin was 100.0%, our services and royalty gross margin was 77.7% and our systems gross margin was 57.7%. We believe our gross margin may continue to fluctuate because we expect semiconductors to be a greater percentage of total revenues and increased competition and more consumer oriented markets may impact pricing.

Since inception, we have invested heavily in research and development and have built a worldwide sales force and administration infrastructure, which has contributed to net losses. Additionally, we have chosen to operate principally in three locations: Cambridge, England; Raleigh, North Carolina; and Santa Clara, California. We believe that our strategy of locating research and development in Cambridge and Raleigh has provided access to high quality engineers and contributed to low turnover.

However, we incur higher general and administrative expenses associated with multi-site operations. We plan to continue to invest to exploit market opportunities and revenues may not increase at a rate sufficient to achieve and maintain profitability.

In September 1997, we implemented a new business strategy and reduced the resources allocated to the systems line of business. A restructuring plan was implemented in the second half of fiscal 1998 which resulted in one-time charges of $1.9 million for the year ended March 31, 1998. Approximately $900,000 of the restructuring charge represents employee costs, $900,000 represents asset write-downs and $71,000 relates to other restructuring costs. We continue to sell our systems products to one principal customer and systems revenues for the three months ended June 30, 1999 were $599,000.

To extend our analog and DSL technical capabilities, in July 1998 we acquired RSA Communications, a privately-held company based in Raleigh, North Carolina specializing in analog modem software development. Financial information for the fiscal year ended March 31, 1999 includes the results of operations for RSA Communications beginning July 17, 1998, the closing date of the acquisition. The transaction was accounted for as a purchase business combination, under the purchase method of accounting. The aggregate purchase price is required to be allocated to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values on the acquisition date. Based on a valuation by an independent appraiser, $5.3 million of the $9.3 million purchase price was allocated to in-process research and development. The valuation was determined using the income-based approach for modem chips and replacement cost method for software algorithms. The acquired in-process technology was not considered to have reached technological feasibility and had no alternative future use. Accordingly, the amount was charged to operations upon acquisition. For more information on the valuation of the acquired in-process research and development, see note 4 of notes to consolidated financial statements. For information showing our unaudited pro forma results of operations including RSA Communications for the fiscal year ended March 31, 1999, see Virata Corporation Pro Forma Combined Financial Information on page F-33.

Our limited operating history in the DSL market makes it difficult to forecast our future operating results accurately. To date, we have not achieved profitability in any quarterly or annual period, and as of June 30, 1999, we had an accumulated deficit of $53.6 million. Although our total revenues have grown in recent quarters, we cannot be certain that our total revenues will increase at a rate sufficient to achieve and maintain profitability.

Results of Operations The following table sets forth, for the periods presented, certain data from our consolidated statement of operations expressed as a percentage of total revenues.

	Year Ended March 31,			Three Months Ended June 30,	
	1997	1998	1999	1998	1999
				(unaudited)	
Consolidated Statement of Operations Data as a Percentage of Total Revenues					
Revenues:					
Semiconductors	-- %	5.7%	30.1%	24.4%	53.2%

License	14.0	17.6	17.6	36.0	10.3
Services and royalty	16.3	13.4	25.5	12.3	14.0
Systems	69.7	63.3	26.8	27.3	22.5
Total revenues	100.0	100.0	100.0	100.0	100.0
Cost of revenues:					
Semiconductors	--	3.6	26.2	15.1	30.4
License	--	--	--	--	--
Services and royalty	2.7	2.2	5.7	2.0	5.2
Systems	54.0	36.6	11.3	16.1	12.1
Total cost of revenues	56.7	42.4	43.2	33.2	47.7
Gross profit	43.3	57.6	56.8	66.8	52.3
Operating expenses:					
Research and development	50.6	44.6	89.9	43.5	95.7
Sales and marketing	68.4	45.6	31.5	19.2	34.6
General and administrative	49.0	55.1	60.2	27.5	33.9
Restructuring costs	--	20.9	--	--	--
Amortization of intangible assets	--	--	5.9	--	7.2
Amortization of stock compensation	--	4.5	15.1	11.1	10.0
Acquired in-process research and development	--	--	56.8	--	--
Total operating expenses	168.0	170.7	259.4	101.3	181.4
Loss from operations	(124.7)	(113.1)	(202.6)	(34.5)	(129.1)
Interest and other income (expense), net	1.9	(2.0)	17.2	0.4	16.0
Net loss	(122.8)%	(115.1)%	(185.4)%	(34.1)%	(113.1)%

Three Months Ended June 30, 1998 and 1999 Total Revenues Total revenues decreased 3.6% from $2.8 million for the three months ended June 30, 1998 to $2.7 million for the three months ended June 30, 1999. While total revenues were largely unchanged, semiconductor revenues increased while license and systems revenues decreased significantly.

Semiconductor revenues increased 110.2% from $675,000 for the three months ended June 30, 1998 to $1.4 million for the three months ended June 30, 1999. The increase in semiconductor revenues, from 24.4% of total revenues for the three months ended June 30, 1998 to 53.2% of total revenues for the three months ended June 30, 1999, was due primarily to a substantial increase in shipments of semiconductors to Orckit Communications. Sales to this customer totaled $1.0 million in the three months ended June 30, 1999.

License revenues decreased 72.4% from $994,000 for the three months ended June 30, 1998 to $274,000 for the three months ended June 30, 1999. The decrease in services and royalty revenues, from 36.0% of total revenues for the three months ended June 30, 1998 to 10.3% of total revenues for the three months ended June 30, 1999, was largely due to a decrease in the average selling price for software licenses.

Services and royalty revenues increased 9.5% from $341,000 for the three months ended June 30, 1998 to $373,000 for the three months ended June 30, 1999. The increase in services and royalty revenues, from 12.3% of total revenues for the three months ended June 30, 1998 to 14.0% of total revenues for the three months ended June 30, 1999, was due primarily to the introduction of our design and consulting services, offset by a decrease in royalty revenues.

Systems revenues decreased 20.6% from $754,000 for the three months ended June 30, 1998 to $599,000 for the three months ended June 30, 1999. The decrease in systems revenues, from 27.3% of total revenues for the three months ended June 30, 1998 to 22.5% of total revenues for the three months ended June 30, 1999, was the result of our decision in September 1997 to focus our efforts on semiconductor sales.

Cost of Revenues and Gross Margin Total cost of revenues consists primarily of semiconductor costs paid to foundry vendors, costs attributable to design services and software maintenance and operations expense including miscellaneous cost of revenues. Total cost of revenues increased 38.6% from $918,000 for the three months ended June 30, 1998 to $1.3 million for the three months ended June 30, 1999. The increase in total cost of revenues, from 33.2% of total revenues for the three months ended June 30, 1998 to 47.7% of total revenues for the three months ended June 30, 1999, was primarily due to the increase in cost associated with higher semiconductor unit sales. License revenues decreased 72.4% from $994,000 for the three months ended June 30, 1998 to $274,000 for the three months ended June 30, 1999. The decrease negatively impacted gross margin.

Semiconductor cost of revenues increased 93.3% from $419,000 for the three months ended June 30, 1998 to $811,000 for the three months ended June 30, 1999. The increase in semiconductor gross margin, from 37.8% for the three months ended June 30, 1998 to 42.8% for the three months ended June 30, 1999, was primarily due to an increase in sales volume during the three months ended June 30, 1999.

There are no costs of revenues associated with our software license revenues.

Services and royalty cost of revenues increased 152.8% from $55,000 for the three months ended June 30, 1998 to $138,000 for the three months ended June 30, 1999. The decrease in gross margin associated with services and royalty revenues, from 83.8% for the three months ended June 30, 1998 to 63.1% for the three months ended June 30, 1999, was primarily the result of costs incurred for design services and expenses associated with royalty revenues.

Systems cost of revenues decreased 27.2% from $444,000 for the three months ended June 30, 1998 to $324,000 for the three months ended June 30, 1999. The increase in systems gross margin, from 41.1% for the three months ended June 30, 1998 to 46.0% for the three months ended June 30, 1999, was primarily due to a decrease in the level of operations support for systems products.

Research and Development Expenses Research and development expenses consist primarily of engineering staffing costs and technology license fees. Research and development expenses increased 112.1% from $1.2 million, or 43.5% of total revenues, for the three months ended June 30, 1998 to $2.5 million, or 95.7% of total revenues, for the three months ended June 30, 1999. The increase was primarily due to the addition of research and development personnel, which grew from 43 to 79 engineers as a result of the acquisition of RSA Communications and accelerated new product development. In comparison to the previous period, the number of new products under development increased substantially. We expect research and development expenses to increase in absolute dollar amounts in future periods as we further expand our research and development organization and acquire additional intellectual property for inclusion in semiconductor device designs.

Sales and Marketing Expenses Sales and marketing expenses consist primarily of employee salaries, sales commissions, travel and related costs for sales and marketing personnel, promotional materials and trade show expenses. Sales and marketing expenses increased 73.5% from $532,000, or 19.2% of total revenues, for the three months ended June 30, 1998 to $923,000, or 34.6% of total revenues, for the three months ended June 30, 1999. The increase was primarily due to the addition of sales and marketing personnel and increased marketing activity. We expect sales and marketing expenses to increase in absolute dollar amounts in future periods as sales and marketing activities increase.

General and Administrative Expenses General and administrative expenses consist primarily of employee salaries and related expenses for executive, accounting, legal and administrative personnel, and costs associated with facilities, professional service fees and other general corporate expenses. General and administrative expenses increased 18.9% from $759,000, or 27.5% of total revenues, for the three months ended June 30, 1998 to $903,000, or 33.9% of total revenues, for the three months ended June 30, 1999. The increase was primarily due to the addition of executive, accounting and administrative personnel. In addition, bad debt provisions increased from $26,000 for the three months ended June 30, 1998 to $87,000 for the three months ended June 30, 1999. We expect general and administrative expenses to increase in absolute dollar amounts as we further invest in infrastructure and incur additional expenses related to the anticipated growth of our business and operation as a publicly held company.

Goodwill Amortization Expense Goodwill amortization expense is related to the acquisition of RSA Communications, which occurred in July 1998. For the three months ended June 30, 1999, goodwill amortization expense was $194,000. We are amortizing the goodwill on a straight-line basis over 60 months beginning in the quarter ended September 30, 1998.

Amortization of Stock Compensation Through June 30, 1999, we had recorded a total of $3.4 million of unearned stock compensation. We recognized amortization of stock compensation of $306,000 for the three months ended June 30, 1998 and $266,000 for the three months ended June 30, 1999.

Interest and Other Income, Net Interest and other income, net consists primarily of interest earned on cash and cash equivalents and short-term investments, interest expense related to obligations under capital leases and our bank line of credit and unrecognized foreign currency translation adjustments. Net interest income increased from $10,000 for the three months ended June 30, 1998 to $428,000 for the three months ended June 30, 1999. The increase in interest and other income was primarily due to additional cash balances as a result of our private placement financing completed in June 1998 and the elimination of interest expense due to the repayment of a bank line of credit in May 1998. This increase was partially offset by an increase in interest expense associated with capital equipment under our lease facility. In addition, we recorded an income of $30,000 for unrecognized foreign currency translation for the three months ended June 30, 1998 and income of $386,000 for unrecognized foreign currency translation for the three months ended June 30, 1999.

Income Taxes

Since inception, we have incurred net losses for federal and state tax purposes and have not recognized any tax provision or benefit.

Fiscal Years Ended March 31, 1997, 1998 and 1999 Total Revenues Total revenues increased 28.5% from $7.0 million for the fiscal year ended March 31, 1997 to $8.9 million for the fiscal year ended March 31, 1998. Total revenues increased 3.6% to $9.3 million for the fiscal year ended March 31, 1999.

No semiconductor revenues were recorded in the fiscal year ended March 31, 1997. Semiconductor revenues increased 451.1% from $505,000 for the fiscal year ended March 31, 1998 to $2.8 million for the fiscal year ended March 31, 1999. Semiconductor revenues increased from 5.7% of total revenues for the fiscal year ended March 31, 1998 to 30.1% of total revenues for the fiscal year ended March 31, 1999 as a growing number of software licensees began initial trials and deployments of broadband access devices.

License revenues increased 61.7% from $971,000 for the fiscal year ended March 31, 1997 to $1.6 million for the fiscal year ended March 31, 1998. The increase in license revenues, from 14.0% of total revenue for the fiscal year ended March 31, 1997 to 17.6% for the fiscal year ended March 31, 1998, was the result of increased success expanding our software licensee customer base. License revenues of $1.6 million for the fiscal year ended March 31, 1999 were substantially the same as the fiscal year ended March 31, 1998. License revenues were 17.6% of total revenues for both the fiscal year ended March 31, 1998 and 1999.

Services and royalty revenues increased 6.3% from $1.1 million for the fiscal year ended March 31, 1997 to $1.2 million for the fiscal year ended March 31, 1998, but decreased from 16.3% to 13.5% of total revenues. Services and royalty revenues increased 96.3% to $2.4 million for the fiscal year ended March 31, 1999 and increased to 25.6% of total revenue. The increase is due primarily to revenues contributed by Virata Raleigh Corporation under analog modem consulting engineering agreements.

Systems revenues for the fiscal year ended March 31, 1997 totaled $4.8 million, or 69.7% of total revenues. Systems revenues increased 16.5% to $5.7 million for the fiscal year ended March 31, 1998. Systems revenues decreased 56.2% to $2.5 million for the fiscal year ended March 31, 1999. The decrease in systems revenues, from 63.3% of total revenues for the fiscal year ended March 31, 1998 to 26.8% of total revenues for the fiscal year ended March 31, 1999, was primarily due to our decision in September 1997 to focus our sales and development efforts on semiconductor devices for the DSL market. During the fiscal year ended March 31, 1999, sales to Com21 represented 72.4% of systems-level product revenues.

Cost of Revenues and Gross Margin Total cost of revenues consists primarily of semiconductor costs paid to foundry vendors, costs attributable to design services and software maintenance and operations expense including miscellaneous cost of revenues. Total cost of revenues was $3.9 million, or 56.7% of total revenues, for the fiscal year ended March 31, 1997. Cost of revenues increased from $3.8 million, or 42.4% of total revenues, for the fiscal year ended March 31, 1998 to $4.0 million, or 43.2% of total revenues, for the fiscal year ended March 31, 1999.

No semiconductor revenues or costs were recorded for the fiscal year ended March 31, 1997. Cost of revenues for semiconductors increased 644.6% from $325,000 for the fiscal year ended March 31, 1998 to $2.4 million for the fiscal year ended March 31, 1999. Semiconductor gross margin decreased

from 35.6% for the fiscal year ended March 31, 1998 to 13.0% for the fiscal year ended March 31, 1999 as a result of reduced selling prices for existing products and product costs and inventory provisions associated with new product introductions.

There are no costs of revenues associated with our software license revenues.

Services and royalty cost of revenues increased 3.8% from $185,000 for the fiscal year ended March 31, 1997 to $192,000 for the fiscal year ended March 31, 1998. Cost of revenues for services and royalty revenues increased 174.4% to $528,000 for the fiscal year ended March 31, 1999. Services and royalty revenues gross margin increased from 83.7% for the fiscal year ended March 31, 1997 to 84.1% for the fiscal year ended March 31, 1998. Services and royalty revenues gross margin decreased to 77.7% for the fiscal year ended March 31, 1999 as the result of costs associated with design services revenues and royalty expenses associated with royalty income.

Systems cost of revenues decreased 12.9% from $3.8 million for the fiscal year ended March 31, 1997 to $3.3 million for the fiscal year ended March 31, 1998. For the fiscal year ended March 31, 1999, systems cost of revenues decreased 68.0% to $1.0 million. Gross margin for systems products improved from 22.6% for the fiscal year ended March 31, 1997 to 42.1% for the fiscal year ended March 31, 1998. Systems product gross margin improved further to 57.7% for the fiscal year ended March 31, 1999 as the result of decreased operations support expenses and a narrower systems product range.

Research and Development Expenses Research and development expenses increased 13.3% from $3.5 million for the fiscal year ended March 31, 1997 to $4.0 million for the fiscal year ended March 31, 1998. The increase was attributable primarily to the addition of personnel in our research and development organization associated with semiconductor product development. Research and development expenses increased 108.9% to $8.3 million for the fiscal year ended March 31, 1999. The increase was primarily the result of increased staffing in Cambridge, England, as well as the addition of personnel as a result of the acquisition of RSA Communications and continued hiring at our Raleigh, North Carolina facility following the acquisition.

Sales and Marketing Expenses Sales and marketing expenses decreased 14.2% from $4.8 million for the fiscal year ended March 31, 1997 to $4.0 million for the fiscal year ended March 31, 1998. Sales and marketing expenses decreased a further 28.4% to $2.9 million for the fiscal year ended March 31, 1999. The decrease in sales and marketing expenses in both periods resulted from our reduced emphasis on systems-level products from September 1997 and increased focus on semiconductor products. Sales efforts for semiconductors are targeted to fewer customers and require lower sales and marketing staffing.

General and Administrative Expenses General and administrative expenses increased 44.2% from $3.4 million for the fiscal year ended March 31, 1997 to $4.9 million for the fiscal year ended March 31, 1998. The increase was primarily due to a $1.1 million bad debt provision for the fiscal year ended March 31, 1998. General and administrative expenses increased 13.2% to $5.6 million for the fiscal year ended March 31, 1999. The increase was primarily due to increased staff performing general and administrative tasks added as a result of the acquisition of RSA Communications and increased bad debt provision.

Restructuring Cost

We recognized $1.9 million of restructuring cost for the fiscal year ended March 31, 1998 associated with our reduced emphasis on systems-level products.

Amortization of Stock Compensation During the fiscal years ended March 31, 1998 and 1999, we recorded a total of $3.3 million of unearned stock compensation. We recognized amortization of stock compensation of $399,000 for the fiscal year ended March 31, 1998 and $1.4 million for the fiscal year ended March 31, 1999.

Interest and Other Income, Net Interest and other income, net decreased from income of $127,000 for the fiscal year ended March 31, 1997 to an expense of $172,000 for the fiscal year ended March 31, 1998. The decrease in interest and other income was primarily due to a $276,000 decrease in interest income and a $142,000 increase in interest expense associated with capital equipment under our lease facility, partially offset by a $118,000 decrease in unrecognized foreign currency translation expense. For the fiscal year ended March 31, 1999, net interest and other income increased to net income of $1.6 million. The increase was primarily attributable to a $666,000 increase in interest income from additional cash balances as a result of our private placement financing completed in June 1998, a $531,000 US federal tax refund and the increase in unrealized foreign currency translation from an expense of $80,000 in the fiscal year ended March 31, 1998 to income of $432,000 in the fiscal year ended March 31, 1999.

Income Taxes

Since inception, we have incurred net losses for federal and state tax purposes and have not recognized any tax provision or benefit. As of March 31, 1998, we had approximately $26.9 million net operating loss carryforwards for US federal, California and United Kingdom income tax purposes that will begin to expire in three years.

As of March 31, 1999, we had deferred tax assets of $14.5 million, which were fully offset by a valuation allowance. Deferred tax assets consist principally of the federal and state net operating loss carryforwards, capitalized start-up expenditures, accruals and reserves not currently deductible for tax purposes, research and development credits and foreign tax credit carryforwards. We have provided a valuation allowance due to the uncertainty of generating future profits that would allow for the realization of these deferred tax assets. Accordingly, no tax benefit was recorded in the accompanying consolidated statements of operations.

Quarterly Results of Operations The following table sets forth our consolidated operating results for each of the five quarters ended June 30, 1999. This data has been derived from unaudited consolidated financial statements that, in the opinion of our management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of this information when read in conjunction with our annual audited consolidated financial statements and notes thereto appearing elsewhere in this prospectus. These operating results are not necessarily indicative of results of any future period.

	Three Months Ended				
	June 30, 1998	Sept 30, 1998	Dec 31, 1998	Mar 31, 1999	June 30, 1999
	(in thousands)				
Revenues:					
Semiconductors	$ 675	$ 1,022	$ 425	$ 662	$ 1,419
License	994	15	175	444	274
Services and royalty	341	734	700	592	373
Systems	754	586	417	720	599
Total revenues	2,764	2,357	1,717	2,418	2,665
Cost of revenues:					
Semiconductors	419	914	246	842	811
License	--	--	--	--	--
Services and royalty	55	174	138	161	138
Systems	444	257	374	(27)	324
Total cost of revenues	918	1,345	758	976	1,273
Gross profit	1,846	1,012	959	1,442	1,392
Operating expenses:					
Research and development	1,202	2,384	2,553	2,184	2,549
Sales and marketing	532	849	710	826	923
General and administrative	759	2,340	965	1,503	903
Amortization of intangible assets	--	137	206	206	194
Amortization of stock compensation	306	377	363	348	266
Acquired in-process research and development	--	5,260	--	--	--
Total operating expenses	2,799	11,347	4,797	5,067	4,835
Loss from operations	(953)	(10,335)	(3,838)	(3,625)	(3,443)
Interest and other income (expense), net	10	(417)	648	1,353	428
Net loss	$ (943)	$(10,752)	$(3,190)	$(2,272)	$(3,015)
As a Percentage of Total Revenues					
Revenues:					
Semiconductors	24.4%	43.4%	24.7%	27.4%	53.2%
License	36.0	0.6	10.2	18.3	10.3
Services and royalty	12.3	31.1	40.8	24.5	14.0
Systems	27.3	24.9	24.3	29.8	22.5
Total revenues	100.0	100.0	100.0	100.0	100.0
Cost of revenues:					
Semiconductors	15.1	38.8	14.3	34.8	30.4
License	--	--	--	--	--
Services and royalty	2.0	7.4	8.0	6.6	5.2
Systems	16.1	10.9	21.8	(1.1)	12.1
Total cost of revenues	33.2	57.1	44.1	40.3	47.7
Gross profit	66.8	42.9	55.9	59.7	52.3
Operating expenses:					
Research and development	43.5	101.1	148.7	90.3	95.7
Sales and marketing	19.2	36.0	41.4	34.2	34.6
General and administrative	27.5	99.3	56.2	62.2	33.9
Amortization of intangible assets	--	5.8	12.0	8.5	7.2
Amortization of stock compensation	11.1	16.0	21.1	14.4	10.0
Acquired in-process research and development	--	223.2	--	--	--
Total operating					

expenses	101.3	481.4	279.4	209.6	181.4
Loss from operations	(34.5)	(438.5)	(223.5)	(149.9)	(129.1)
Interest and other income (expense), net	0.4	(17.7)	37.7	56.0	16.0
Net loss	(34.1)%	(456.2)%	(185.8)%	(93.9)%	(113.1)%

Semiconductor revenues increased 51.4% to $1.0 million for the three months ended September 30, 1998 as compared to the prior three-month period. Semiconductor revenues decreased 58.4% to $425,000 for the three months ended December 31, 1998 as compared to the prior three-month period. This increase followed by a decrease was due to the timing of shipments to one customer.

Our software license revenues have fluctuated during the last five quarters ended June 30, 1999. Because of the limited number of licenses signed during any three-month period, small changes in the number of licenses sold caused significant changes in quarterly license revenues. During the three months ended June 30, 1998, we adopted SOP 97-2, which affected the periods in which license revenues were recognized. In addition, we substantially reduced the average selling price for our licenses, which contributed to the increase in the number of licenses sold and also contributed to the fluctuations in quarterly license revenues.

Services and royalty revenues increased 115.4% from $341,000 for the three months ended June 30, 1998 to $734,000 for the three months ended September 30, 1998. The increase was due primarily to the acquisition of RSA Communications in July 1998. Services and royalty revenues have subsequently declined each quarter following the three months ended September 30, 1998 reflecting our decision to offer consulting services only to companies that sign a software license agreement.

Research and development expenditures increased 98.4% from $1.2 million for the three months ended June 30, 1998 to $2.4 million for the three months ended September 30, 1998. The increase was primarily due to our acquisition of RSA Communications, which added 17 engineers to our staff, and accelerated product development.

General and administrative expenses increased 208.3% to $2.3 million in the three months ended September 30, 1998 as compared to the prior three-month period. General and administrative expenses decreased 58.8% to $965,000 in the three months ended December 31, 1998 as compared to the prior three-month period. The increase followed by a decrease was principally due to bad debt expense arising primarily from two customers. The first bad debt expense related to a systems-level product customer, which purchased substantially all of our remaining adapter card products. The customer subsequently went out of business. The second bad debt expense related to Hayes Microcomputer's decision to file for bankruptcy. We have adopted credit policies that we believe will limit future customer non-payments. However, we can not offer any assurances regarding the effectiveness of these policies or of our ability in general to limit customer non-payments.

Our operating results have fluctuated significantly from quarter to quarter in the past, and we expect these fluctuations to continue in the future. For a list of factors that might affect fluctuations in our operating results, see "Risk Factors--Our operating results in one or more future periods are likely to fluctuate significantly and may fail to meet or exceed the expectations of securities analysts or

investors, which may cause our stock price to decline." We believe period to period comparisons of our operating results are not meaningful. You should not rely on our quarterly operating results to predict our future performance.

Liquidity and Capital Resources Since inception, we have financed our operations primarily through venture capital and corporate investments in our convertible preferred stock, which total $66.1 million in aggregate net proceeds through June 30, 1999. We have also financed our operations through equipment lease financing, which totaled $1.9 million in principal amount outstanding at June 30, 1999.

As of June 30, 1999, we had $6.5 million of cash and cash equivalents, working capital of $5.2 million and $1.9 million under an equipment lease.

Net cash used in operating activities for the fiscal year ended March 31, 1997 of $7.0 million was primarily due to net operating losses of $8.5 million and an increase in accounts receivable of $797,000, offset by increases in accounts payable and accrued liabilities of $1.0 million and $818,000, respectively. Cash used in operating activities for the fiscal year ended March 31, 1998 of $9.3 million was primarily due to net operating losses of $10.3 million and an increase in accounts receivable of $1.7 million, offset by a provision for doubtful accounts of $1.1 million. Cash used in operating activities for the fiscal year ended March 31, 1999 of $9.6 million was primarily due to net operating losses of $17.2 million and a decrease in accounts payable of $1.2 million, offset by a write off of in-process research and development of $5.2 million, amortization of stock compensation of $1.6 million and a provision for doubtful accounts of $1.5 million.

Net cash used in operating activities for the three months ended June 30, 1998 of $759,000 was due primarily to net operating losses of $943,000 and decreases in accounts payable of $668,000, offset by decreases in other current assets of $579,000. Cash used in operating activities for the three months ended June 30, 1999 of $2.4 million was due primarily to net operating losses of $3.1 million and increases in current assets of $624,000, offset by increases in accrued liabilities of $485,000.

Net cash used for investing activities was $1.4 million, $193,000 and $8.2 million for the fiscal years ended March 31, 1997, 1998 and 1999, respectively, which primarily reflected purchases of property and equipment. For the three months ended June 30, 1999, net cash provided by investing activities was $948,000, primarily due to sales of short-term investments. For the fiscal year ended March 31, 1999, we completed the acquisition of RSA Communications. Net cash used for the acquisition was $5.1 million.

Net cash provided by financing activities was $14.6 million, $3.3 million and $25.5 million for the fiscal years ended March 31, 1997, 1998 and 1999, respectively. Net cash used by financing activities was $50,000 for the three months ended June 30, 1999. Cash provided by financing activities in each of these periods was attributable primarily to proceeds from the issuance of convertible preferred stock, equipment lease financing and, for the fiscal year ended March 31, 1998, a revolving credit facility.

On August 27, 1999 we entered into a borrowing agreement for up to $3.0 million under which $483,000 was outstanding as of August 31, 1999.

We believe that the net proceeds from this offering, together with our current cash, cash equivalents, short-term investments and borrowings under our current credit facility, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next twelve months. If cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or to obtain an additional credit facility. If additional funds are raised through the issuance of debt securities, these securities could have rights, preferences and privileges senior to holders of common stock, and the terms of any debt could impose restrictions on our operations. The sale of additional equity or debt securities could result in additional dilution to our stockholders, and additional financing may not be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain this additional financing, we may be required to reduce the scope of our planned product development and marketing efforts, which could harm our business, financial condition and operating results.

Year 2000 Compliance Disclosure The term "Year 2000 issue" is a general term used to describe the various problems that may result from the improper processing of dates and date- sensitive calculations by computers and other machinery as the Year 2000 is approached and reached. These problems generally arise from the fact that most of the world's computer hardware and software have historically used only two digits to identify the year in a date. As a result, date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. These problems may also arise from other sources as well, such as the use of special codes and conventions in software that make use of the date field. If not corrected, these electronic systems could fail or create erroneous results when addressing dates on and after January 1, 2000.

State of Readiness

To address the Year 2000 issue, we have assembled a team that is responsible for evaluating our state of readiness in connection with the Year 2000 issue. Our information services and operations departments have evaluated the Year 2000 issue, and one employee from each of these departments is designated as a Year 2000 coordinator.

Our Year 2000 activities have focused primarily in five areas:

. products--analyzing software, semiconductor and circuit boards; . systems--analyzing financial, materials planning, computer aided design tools, PC desktops, applications and data; . suppliers--ensuring a continuous supply of goods and services; . customers--responding to customers requesting information; and . policies and contingency plans--adopting policies in areas such as human resources, finance, travel and security.

For each of these five areas, our strategy has been to:

. develop an awareness and understanding of particular issues; . determine an appropriate solution for each issue, and plan and provide resources for the solution; . validate, test and document the solution; . execute the solution; and . ensure that an adequate contingency plan is in place.

Examples of our activities and conclusions in connection with the Year 2000 issue are as follows:

Products

None of our semiconductor products, embedded software or systems-level products contain any date-related information or circuitry, nor do they have any functionality specific to time of day, week, month or year. The only exception to the preceding sentence is that we delivered ATM video storage system devices to less than 50 customers in 1995 and 1996 for use in experimental near-video-on-demand. We believe any Year 2000 problems arising in such devices would in any event cause only negligible loss of functionality to such devices. However, we cannot be certain of or control the use and application of our products in conjunction with third party software development or operating systems, and the failure of such third party products due to Year 2000 problems could harm our development or sales activities related to such third party products.

Systems

We have audited our internal systems and data, both information technology and non-information technology, including those used for financial and materials management and for computer aided design workstations and software. In addition, we have tested our desktop and laptop PCs and applications and have installed service pack software as required. Further, we have implemented procedures to ensure that any new hardware or software purchased between now and the end of 1999 will, when installed, undergo similar tests and audits. Based on our preliminary assessment, we do not believe that our material internal systems will be affected by the Year 2000 issue.

Suppliers

In early 1999, we issued Year 2000 questionnaires to over 100 of our suppliers. We have received satisfactory responses to such questionnaires from all but eight of these suppliers. We removed these eight suppliers from our list of approved vendors and determined not to reinstate such suppliers until they provide us with adequate assurances regarding Year 2000 readiness. The goods and services previously provided by these eight suppliers are available to us from other sources at comparable prices. In addition, we have taken reasonable steps to audit our corporate services, including a review of infrastructure items such as premises systems, telephones, air conditioners, elevators and fire alarms. Nevertheless, we are not capable of independently evaluating the state of Year 2000 readiness of our suppliers, and the failure of suppliers and other third parties to identify and resolve Year 2000 issues in a timely manner could harm our business, financial condition or results of operation.

Customers

We have responded to each customer that has inquired about our Year 2000 readiness and have completed Year 2000 questionnaires upon request. However, our products, once shipped to customers, are incorporated into other products that we do not develop. The performance of our products could be affected if a Year 2000 problem exists in a different component of a customer's product. We have not, and will not, assess the existence of these potential problems in customers' products or any other information regarding customers' state of Year 2000 readiness. In addition, our current or future customers may incur significant expenses to achieve Year 2000 readiness, or customers may face

litigation costs. In either case, Year 2000 problems could reduce or eliminate the budgets that current or potential customers may have for purchases of our products and services. As a result, our business, results of operations or financial conditions could be harmed.

Policies and Contingency Plans We have developed, and will continue to develop, policies regarding matters such as vacation time, travel, asset management and security during the roll- over period. In addition, we intend to implement a complete back-up of all of our business and technical computer data, with multiple copies of such data being held in secure locations on December 30, 1999.

Costs to Address the Year 2000 Issue Our Year 2000 activity has not required significant expense and we expect that operating costs and margins will not be affected by Year 2000 issues. To date, we estimate that we have spent approximately $50,000 on implementation of our Year 2000 preparations, the majority of which relates to staffing costs in coordinating and auditing ourselves.

Legal Proceedings

We have not been party to any litigation or proceedings related to the Year 2000 issue, and we are not presently aware of any circumstances that could give rise to such proceedings. However, we cannot be sure that we will not in the future be required to defend our products or services in legal proceedings, and we cannot guarantee that we will remain free of Year 2000 related disputes. Any liability of Year 2000 related damages, including consequential damages, could harm our business, operating results and financial condition.

Based on currently available information, we do not believe that Year 2000 issues will harm our business, financial condition, liquidity or overall results of operations. However, until the Year 2000 occurs, it is uncertain to what extent we may be affected by Year 2000 issues.

Risks

As a result of the Year 2000 issue, we may experience serious unanticipated problems and costs caused by undetected errors or defects in the technology used in our software and hardware products and internal systems. In addition, we may be required to defend our products or services in legal proceedings, and we cannot guarantee that we will remain free of Year 2000 related disputes. If our software and hardware products or our internal systems are not Year 2000 compliant, the Year 2000 issue could harm our business, financial condition, liquidity and results of operations. Until the Year 2000 occurs, we cannot be sure that we will not be affected by the Year 2000 issue.

Recent Accounting Pronouncements In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivatives and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In July 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 137 deferred the effective date of SFAS No. 133 until fiscal years beginning after June 15, 2000. We will adopt SFAS No. 133 during the year ending

March 31, 2002. To date, we have not engaged in derivative or hedging activities. We cannot predict the impact of adopting SFAS No. 133 if we were to engage in derivative and hedging activities in the future.

Qualitative and Quantitative Disclosures About Market Risk The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we may invest in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds, government and non-government debt securities and certificates of deposit. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. As of June 30, 1999, all of our investments were in money market funds, certificates of deposits or high quality commercial paper. See note 1 of the notes to the consolidated financial statements.

We develop products in both the United Kingdom and the United States and sell in North America, Asia, Israel and Europe. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions. A strengthening of the dollar could make our products less competitive in foreign markets, since all of our sales are currently made in U.S. dollars.

Business

This prospectus contains, in addition to historical information, forward- looking statements that involve risks and uncertainties. Our actual results could differ significantly from the results discussed in the forward-looking statements. Factors that could contribute to such differences include those discussed in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," as well as those discussed elsewhere in this prospectus.

Introduction

Virata provides communications processors which are combined with a comprehensive suite of software for DSL equipment manufacturers. These tightly integrated products enable our customers to develop a diverse range of digital subscriber line equipment including modems, gateways and routers targeted at the broadband access market. We believe our systems expertise, products and support services enable DSL equipment manufacturers to simplify product development, speed time-to-market and focus resources on product differentiation. We outsource the manufacturing of our semiconductors, which allows us to focus our resources on the design, development and marketing of our products. To date we have licensed our software to 27 companies. These customers have developed, or are developing, 74 designs of which 28 are currently shipping.

Industry Background

The amount of data being carried over the Internet and private communications networks has grown dramatically in recent years. International Data Corporation estimates that the number of Internet users worldwide was approximately 142 million in 1998 and will reach approximately 502 million in 2003. This tremendous growth in data traffic is expected to continue as the number of users accessing networks increases and as businesses and consumers demand richer content and more complex applications for activities such as telecommuting, electronic commerce and interactive media. These activities require the transmission of large amounts of data which, in turn, requires high-speed, broadband data access services for end users to obtain data reliably and within practical time constraints.

To meet the demand for high-speed, broadband data transmission, network service providers continue to install high-bandwidth fiber optic transmission equipment, high-speed switches and core routers in the Internet backbone and in interoffice networks. While this network backbone is capable of delivering data at very high speeds, an access bottleneck exists between the telephone companies' central offices and the end users' premises. The copper line connections between the central office and the end user are commonly known as the local loop, or the last mile. The last mile infrastructure was originally designed for low-speed analog voice traffic rather than high-speed digital data transmission. As a result, access to the Internet and private communications networks over the copper wire infrastructure of the last mile has typically been limited to data transmission rates of up to 56 Kbps using standard dial-up analog modems, or 128 Kbps using integrated services digital network, or ISDN, modems. At these rates, several minutes may be required to access a media rich website, and several hours may be required to transfer or download large files.

In an effort to provide greater bandwidth in the local loop, network service providers are deploying higher speed access services such as frame relay or T1/E1. However, the historical pricing structure has limited such services to larger businesses. This competitive environment started to change with the passage of the Federal Telecommunications Act of 1996 and was accelerated with the recent merger of AT&T and TCI. The Federal Telecommunications Act intensified the competitive environment by requiring incumbent local exchange carriers, or ILECs, to lease portions of their networks, including the local loop, to other telecommunications service providers. These changes in competitive structures coincided with the maturation of DSL technology, enabling high-bandwidth data networking over the existing local loop copper infrastructure. As a result, a number of companies including Covad Communications, MCI WorldCom, NorthPoint Communications, Rhythms NetConnections and Sprint, are now deploying high-speed services using DSL technologies over the copper infrastructure owned by the ILECs. In addition, AT&T has announced plans to offer broadband and interactive services, including telephony, on a broad scale over TCI's cable systems over the next few years. In response to these competitive pressures, and in an effort to increase revenues and maintain their existing customer base, ILECs are now aggressively committing their resources to deploy DSL services.

DSL enables data transmission speeds of 128 Kbps to 52 Mbps using the existing local loop copper wire infrastructure. DSL delivers "always on" availability, eliminating the tedious dial-up process associated with traditional analog modem technologies. DSL is a point-to-point technology that connects the end user to a telecommunications service provider's central office or to an intermediate hub. DSL equipment is deployed at each end of the copper wire and the transmission speed depends on the length and condition of the existing wire as well as the capabilities of the DSL equipment.

DSL implementations offer several attractive benefits over other broadband access technologies, including:

. Dedicated bandwidth. Some alternative high-speed data transmission solutions, such as cable, are shared-media systems where many users are attached to the same cable loop, and may suffer performance degradation or security breaches as users are added to the network. Because each DSL connection is dedicated to a single user, DSL does not suffer from such service degradation and enables a higher level of security.

. Broad coverage. Dataquest estimates that the number of installed telephone lines worldwide was approximately 831 million in 1998 and will reach over 1.0 billion in 2002. Since virtually all businesses and homes in developed countries have installed copper telephone wire connections, DSL technologies can be made available to a large percentage of potential end users.

. Low cost. Because DSL uses the existing local loop connection, it is generally less expensive to deploy than other high-speed data transmission technologies. In addition, recent advances in technology development, industry standardization and competition are further enabling widespread, low-cost deployment of DSL.

. Scalable to customer requirements. DSL technology enables service providers to regulate the transmission speed for individual customers, allowing tiered pricing at various service levels. Service providers can then more efficiently segment their customer base.

. Natural upgrade from analog modems. DSL modems use the same phone port as analog modems, providing the user with a simple upgrade path.

Equipment manufacturers encounter a number of challenges to meet the demands of the growing DSL market. These challenges include constantly evolving technology and networking standards, an expanding range of feature expectations and shorter product life-cycles. To meet these challenges and reduce time-to-market, equipment manufacturers are increasingly relying on multiple third-party vendors to deliver critical component building blocks that can be incorporated into a complete DSL product. A typical DSL customer premises system, such as a modem, gateway or router, includes the primary building blocks which are illustrated below:

[Graphic Depiction of Dsl Customer Premises Equipment]

The front end circuitry which is comprised of integrated circuits and other components, receives and transmits the electronic signal and converts that signal to either analog or digital streams. The physical layer semiconductor, or PHY, together with its software, establishes, maintains and controls the digital encoding and decoding of the signal and ensures reliable transmission of information over the copper wire infrastructure. The layer 2 and 3 processor, combined with complex, multifunctional software modules, is responsible for managing the addressing, routing, switching and protocol conversions needed to encapsulate and route information packets.

The integration of these individual components from multiple third-party vendors can be a complex, time consuming and costly process. While today there are a number of vendors which deliver a portion of either the hardware or software building blocks, an opportunity exists for a supplier capable of delivering higher levels of integration of both semiconductor and software components.

The Virata Solution

We provide a solution that integrates communications processors with a comprehensive suite of software for DSL equipment manufacturers. Our systems expertise, products and support services enable our customers to simplify product development, speed time-to-market and focus resources on product differentiation. Our communications processors perform system functions which require real-time processing speed and are technically mature, thus unlikely to change as standards evolve. Our proprietary software is used for protocol processing, management and control of network and semiconductor interfaces, allowing our communications processors to be fine tuned or fully customized for specific applications. This approach delivers off-the-shelf functionality for rapid development, scalability from single PCs to complex edge routers and flexibility to add new features and quickly respond to evolving standards. Key features of our solution include:

. Flexible architecture. Our products are based on a flexible architecture that simplifies the addition of features. This architecture enables new services such as voice, video, security to be added incrementally as broadband solutions evolve. . PHY-independent. Our devices use generic, industry standard interfaces to attach to any third party DSL physical layer semiconductor. By being PHY-independent, our products are able to meet the demands of multiple OEMs for a wide array of applications within the broadband local loop.

. Compelling price/performance. By designing software to run only on our semiconductors we are able to achieve efficiency in silicon area and code size. The combination of these features results in high performance, low power consumption and compelling price/performance.

. Standards compliant. Our products are compliant with relevant ATM Forum, IETF, ITU and other industry standards. Such standards evolve over time and our architecture is designed to accommodate such changes.

Our customers recognize the following key benefits from using our solutions:

. Faster time-to-market. Fewer building blocks to integrate results in shorter development and test cycles, lower engineering risks, faster product introduction and reduced development costs.

. Reduced product cost. Eliminating costly external components and reducing board space leads to lower product cost.

. Differentiation. Our customers' engineering resources can be focused on product differentiation through value-added features and innovations, rather than on elements contained in our solution.

. Platform for multiple products. Our modular software and hardware architecture enables the design of multiple products using different subsets of our modular software.

. Re-usability. As we add features and capabilities to our communications processors and software modules, software extensions developed by our customers can continue to be used on future generations of their products.

The Virata Strategy

Our objective is to be the leading provider of communications processors integrated with a comprehensive suite of related software to broadband access equipment suppliers. Key elements of our strategy include: . Initial focus on DSL. We have built extensive expertise providing solutions that integrate communications processors with software for the content and connection enabling layers of the broadband communications network. While our core technologies are capable of supporting a number of broadband access alternatives, we have chosen to initially focus on the DSL market.

. License our software to all customers. We typically license our software to a customer at the time we achieve an initial design win. The customer then designs products incorporating our communications processors, which they purchase separately from us. By standardizing on our software, customers build a foundation for integrating additional functionality and designing next generation products. We believe that once a customer employs our architecture and experiences the benefits of our systems expertise, we become that customer's preferred partner for future products.

. Leverage our flexible architecture. Our integrated solution provides us substantial flexibility to extend our existing products, whether at the software or semiconductor level, to meet evolving standards and features required by the market. This approach allows our customers to achieve faster time-to-market, lower development costs and focus engineering resources on proprietary product feature development.

. Pursue strategic acquisitions. Our strategy is to enhance our growth capability by pursuing selective acquisitions. This strategy allows us to more rapidly obtain complementary technologies and engineering talent and to access certain markets and key customer relationships. Consistent with this strategy, we acquired RSA Communications in 1998. We believe completing selective acquisitions will be important to remain competitive as a complete solutions provider to manufacturers of broadband access equipment.

Products

We specialize in communications processors that are integrated with a comprehensive suite of software for DSL equipment manufacturers. Our communications processors perform the critical content encapsulation and content routing functionality required in DSL equipment, which is commonly referred to as layer 2 and layer 3 processing. Our system combines multiple elements required for managing the addressing, routing, switching and protocol conversions needed to encapsulate and route information packets. This integration of communications processors and software provides our customers a comprehensive, tested, self sufficient product that replaces semiconductors, software and support previously sourced from multiple vendors.

Semiconductor Products We offer two families of semiconductor products: the Proton family of application specific integrated circuits, or ASICS, and the ATOM family of application specific standard products, or ASSPs. The Proton ASICs are used in various combinations to enable different applications including switching fabrics for small to mid-sized DSLAMs. Proton products enabled customers to quickly develop their products prior to the establishment of widely accepted broadband access standards. The following is a list of our Proton family products:

Product Function Target Applications Introduction Date

Boson	ISA bus interface	ATM adapter cards	April 1995
Quark	ATM cell buffer and processor for switch or adapter network ports		April 1995
Gluon	ATM Forum CRC generator and ARM RISC microprocessor support	A combination of these products creates a switching fabric for DSLAMs or cable head-ends	April 1995
Hadron	ATM cell address hasher for switching applications		January 1996
TBX	ATM traffic shaping controller and buffer for switching applications		August 1997

The establishment of broadband access standards and our experience with the Proton ASIC family has enabled us to design the ATOM family of ASSPs for OEMs focusing on the DSL market. These communications processors combine the relevant elements of the Proton ASICs with at least one embedded ARM RISC microprocessor. ATOM devices also provide Ethernet, PCI or USB network interfaces as well as Utopia for connection to physical layer devices and other semiconductors. While Hydrogen features a single embedded ARM RISC microprocessor, Helium and Lithium contain two ARM RISC microprocessors to separate protocol and network processing. The Hydrogen, Helium and Lithium ASSPs support physical layer devices from a broad range of vendors. The following is a list of our PHY-independent ATOM family products:

Product Interfaces Target Applications Introduction Date

Hydrogen	PCI, Utopia 1 and ATM25 PHY	DSL internal and external modems and set-top boxes	August 1997
Helium	USB, Utopia 1/2, ADSL T1.432, HDLC and 10BaseT Ethernet	DSL external modems, gateways, routers, DSLAMs and DLC line cards	June 1999
Lithium	PCI, Utopia 1/2 and ADSL	DSL internal and external	October 1999

T1.432	modems, gateways and set-top boxes	

We are developing a new generation of ATOM products to support the transition from analog access equipment to next-generation DSL equipment. These products leverage our extensible architecture to combine PHY layer processing for both analog and digital technologies along with the layer 2 and layer 3 functionality of Helium and Lithium into a single highly integrated device. The first PHY-integrated product we are developing for this market is Beryllium, which is described below:

Product	Interfaces	Target Applications	Introduction Date
Beryllium	G.lite, V.90, PCI and USB interfaces (for Ethernet and home phone-line networking)	G.lite/V.90 internal and external modems and gateways	March 2000

By utilizing the Beryllium solution, equipment manufacturers will be able to offer products that are functional with either dial-up 56K V.90 or G.lite DSL networks. G.lite is a form of DSL which operates at speeds up to 1.5 Mbps and is expected to support consumer and small office / home office applications. Because of its dual V.90 and G.lite character, Beryllium will allow the consumer to buy a "G.lite-ready" modem and subsequently upgrade from V.90 to G.lite DSL network access without any changes to their modem equipment once G.lite services are available from the consumer's service provider. We cannot be sure that if new products or product enhancements are developed, any such new products or product enhancements will be developed in time to capture market opportunities or achieve a significant or substantial level of acceptance in new and existing markets.

Software

Our software is key to providing flexible, off-the-shelf processing solutions. Multiple software modules deliver management and support for functions at the link, protocol and physical layer. These modules operate on top of ATMOS, our real-time operating system, which is optimized for communications applications that run on ARM RISC microprocessors. The software provides our customers a ready-to-deploy menu of over 50 modules to meet their specific product requirements. Together, the modules complete a customized, sophisticated system which supports multiple functions including quality of service, system management, bridging, tunneling, address translation, signaling and routing. We also offer customers a full set of software development tools including compilers, linkers and other special-purpose tools.

Design and Support Services We offer a number of design and support services which we believe add substantial value to our product offerings. Our key services are detailed below:

Custom Design Services Our Customer Services and Solutions group specializes in product development engagements for customers that require additional resources or particular technical skills during the development stage. A typical project will take three to six months to complete and comprises development and delivery of system hardware, software and all supporting documentation enabling the customer to rapidly commence production. We believe these services provide a critical advantage in winning business.

Technical Support Services Once customers have purchased a license for our software, they desire to quickly and efficiently commence product development. We assist our customers by providing five days of comprehensive training in the use of our semiconductors and software development systems. Through our extranet site, which is accessible to all of our customers, we deliver new software and documentation and take action on bug reports. Our support engineers assist our customers throughout the product development cycle which can include formal and informal design reviews.

Evaluation Systems

We help our customers accelerate their product development programs by designing a board-level evaluation system for each ATOM product. Typically each time a new ATOM ASSP is introduced, an evaluation system featuring the new product is made available to our customers simultaneously with the first release to customers of the new semiconductor. This approach provides an effective way for our customers to evaluate the new semiconductor and its software while enabling designers to add their own functionality.

Technology

A key element of our success is our technology expertise which spans physical, networking and protocol layer processing and systems-level knowledge. Our semiconductor and software architectures are designed to enable the rapid, flexible development of new products to meet the evolving feature, performance and standards compliance demands of the broadband access market. A single-chip, multi-processor architecture was chosen as the most flexible and cost-efficient approach to the complex challenge of satisfying the requirements of:

. layer 2 and 3 processing for broad application across the different DSL technologies when used in conjunction with physical layer transceivers from third party vendors;

. integration of analog processing with DSL processing on a single communications processor;

. processing support for an evolving range of services and applications such as high speed Internet access, corporate routing, voice services, security and encryption for Virtual Private Networks, or VPNs, and video distribution; and . broad application of our solutions whether used in modems close-coupled to PCs, Internet appliances, remote gateways and routers, DSLAMs or DLCs.

We believe the core of our technology expertise is delivered to our customers through our ASSP architecture, software architecture, communications algorithms, digital signal processing, ATM, Frame and Internet protocol processing and systems-level expertise.

ASSP Architecture

Our current ASSP architecture is specifically designed to meet the performance and feature demands for broadband access equipment. This architecture provides the flexibility for application in a wide range of customer premises equipment without the need for additional processing support. For example, when used inside or close coupled to a PC, our ASSPs and software place minimal demands

on the host PC processor freeing it to focus on its own operating system and application software support. We believe this approach results in improved user satisfaction through enhanced PC reliability and better performance, and minimized support costs for PC suppliers and service providers.

The architecture is based on a dual bus structure. One bus connects the embedded ARM RISC processors used for protocol processing, network processing and other control functions with a wide range of physical interfaces. These physical interfaces support connection of our communications processors to other semiconductors and memory systems as well as to external devices such as PCs and Ethernet hubs. The second bus supports DSPs and other specialized processors. Both buses access common resources such as an SDRAM controller, an interprocessor gateway, processor registers and debugging facilities.

This architecture makes it possible for us to quickly develop new ASSPs to meet evolving standards and the application demands of the market.

Software Architecture By simultaneously developing the software and semiconductor architectures, we have achieved tight software/semiconductor integration. This results in better system performance, smaller chip size, fewer lines of code and lower memory requirements than is possible by the complex alternative of assembling, integrating and testing functionally equivalent software elements from multiple off-the-shelf sources. Our software architecture partitions the processing requirements into time critical and non-time critical tasks. All time critical code is optimized to run on the network processor ensuring the high performance required for low latency and control of external interfaces. A compact real-time operating system controls processing on the protocol processor.

The modular construction of the software architecture makes it easier to add further functionality without the need to re-test the integrity of the entire software stack. This facilitates rapid development and release of new software features.

Communications Algorithms and Digital Signal Processing Communications algorithms are the processes and techniques used to transform a digital data stream into a specially conditioned signal suitable for transmission across copper telephone wires. We have extensive experience developing software code for the voice modem market and are leveraging that expertise to develop the solutions required for the G.lite standard. PHY layer code is executed in our Beryllium communications processor using a compact, low power DSP supported by fixed function processors.

ATM, Frame and Internet Protocol Processing The ATM processing software manages, channels, buffers and shapes ATM cells and utilizes the custom hardware filters in the semiconductors to achieve the optimum trade-off between software flexibility and hardware performance. To support transmission of frame encapsulated data, our software supplies drivers for Ethernet and HDLC as well as a variety of methods for encapsulating frames over ATM. The software management capabilities for layer 3 processing include TCP/IP, IP routing, network address translation, IP configuration and tunneling.

Systems-Level Expertise We have accumulated experience designing systems-level products that meet the technical challenges of the local loop environment and of interoperability with products from other suppliers. This know-how is embedded in our products. Our customers additionally benefit from this experience during their product architecture and design milestone reviews.

Partner Reference Design Programs We develop and deliver board-level DSL products with providers of PHY level communications processors. These products, or partner reference designs, include our layer 2 and 3 communications processors and software modules and our partner's PHY layer hardware. These programs allow us to benefit from the expanded reach of the partner's sales organization. Our customers also benefit from a more complete solution which allows faster time-to-market. Two partner reference designs are currently offered through our joint development programs with Advanced Micro Devices and ST Microelectronics. We are currently seeking to extend the partner reference design program to expand our reach into additional DSL market segments.

Customers

We sell our products to established telecommunications equipment vendors, modem manufacturers and broadband access equipment companies, including the following 27 customers who have licensed our software:

Customers Markets

Abocom Systems	Next Level Communications	DSL
Ambit Microsystems	Opencon Systems	
Asustek Computer	Opnet Technology	
Bosch Telecom	Orckit Communications	
Broadband Technologies	Presence Technology	
Coppercom	Siemens A.G.	
D-Link	Sphere Communications	
Diamond Multimedia Systems	Tainet Communications System	
E-Tech	Teltrend	
IPM Datacom	Viagate Technologies	
Mariner Networks	Westell Technologies	
Netopia	Xavi Technology	
Adaptive Broadband		Wireless
Com21	Pace	Cable

These customers have developed or are developing 74 equipment designs based on our semiconductors and software. Of these 74 designs, 28 are currently shipping.

Our ASICs and ASSPs are employed by our customers in the following representative product types:

. DSL modems which are installed inside PCs; . DSL modems which are connected to a PC via a USB or Ethernet link; . DSL gateways and routers; . DSLAMs and DLCs; and . Cable modem head-ends.

We depend on a relatively small number of customers for a large percentage of our revenues. For the three months ended June 30, 1999, Orckit Communications, Com21 and Netopia accounted for 39.8%, 17.2% and 10.2%, respectively, of our total revenues. We do not have purchase orders with any of our customers that obligate them to continue to purchase our products and these customers could cease purchasing our products at any time.

Sales and Marketing

Our sales and marketing strategy is to license our software and secure design wins with industry leaders in emerging high growth segments of the broadband access equipment market. We typically license our software to a customer at the time we achieve an initial design win. The customer then designs products incorporating our communications processors, which they purchase separately from us. As a result, prior to completing the license agreement, our development engineers often act as consultants to customers to assist them with their architectural decisions. We generally employ a direct sales model to build a close relationship with customers both prior to and following the execution of a license. In Taiwan, we work with a dedicated representative firm.

Generally, our sales team consists of qualified engineers who are located in California, Massachusetts, North Carolina and the United Kingdom providing coverage of the US and Europe. The sales team is supported by development engineers that work directly with customers on their new product developments.

We manage a number of marketing programs designed to communicate our capabilities and benefits to broadband access equipment manufacturers. Our Internet site is an important marketing tool where a wide range of information is available including product information, white papers, application notes, press releases, contributed articles and presentations. In addition we participate in industry trade shows, technical conferences and technology seminars, conduct press tours and publish technical articles in industry journals.

Research and Development As of June 30, 1999 we had 79 engineers based in Raleigh, North Carolina and Cambridge, England. Of these engineers, 27 have advanced degrees, including nine with Ph.D.s. Several individuals were early developers in voice modem software and ATM technologies.

Since mid-1998, we have been investing a significant portion of our research and development expenditures in the development of Beryllium and its associated software to address the G.lite/V.90 market. We believe that we must continue to innovate, extend the range and enhance our products and services to maintain our leadership position. We cannot be sure that our research and development efforts will result in the introduction of a new product or product enhancements or that any new product will achieve market acceptance. We will invest further to expand our research and development head-count and capabilities. Our research and development expenditures were $4.0 million and $8.3 million in the fiscal years ended March 31, 1998 and 1999, respectively.

Manufacturing

We outsource the manufacturing, assembly and testing of all our semiconductors. This fabless semiconductor model allows us to focus our resources on the design, development and marketing of our products. Our Proton semiconductors and current ATOM communications processors have all been sourced from suppliers that deliver fully assembled and tested products on a turnkey basis.

The current ATOM products incorporate embedded ARM RISC microprocessors and are supplied by companies that have an ARM license. In June 1999, we entered into a per semiconductor design license agreement with ARM which allows us to select foundry suppliers that best meet our quality, delivery and cost objectives. We have also expanded our operations team so that we will be able to assume more

of the manufacturing and quality control responsibilities, including contracting for wafer processing, assembly and testing from separate suppliers. Further benefits will include accelerating the transition of our devices into progressively smaller die size, providing important advantages, including lower cost, defect rates and power consumption / heat dissipation and higher speed, all of which are important to the commercial success of our semiconductor products.

Because we rely on third party foundries for substantially all of our manufacturing, assembly and testing requirements, we cannot be sure that we will be able to obtain semiconductors within the time frames and in the volumes required by us at an affordable cost or at all. These third party foundries are not obligated to supply products to us for any specific period, in any specific quantity or at any specific price, except as may be provided in a particular purchase order that has been accepted by one of them. We have experienced delays and may in the future experience delays in receiving semiconductors from these foundries. If the foundries we currently use are unable to provide us with their products on a turnkey basis or we are otherwise required to find alternative subcontractors, product shipments could be delayed significantly. Any problems associated with the delivery, quality or cost of the assembly and testing of our products could seriously harm our business, financial condition and results of operations.

Competition

The communications semiconductor market is intensely competitive and characterized by rapid technological change, evolving standards, short product life cycles and price erosion. Major competitive factors in the market we address include technical innovation, product features and performance, level of integration, reliability, price, total system cost, time-to-market, customer support and reputation. We believe that while, today, no other single company offers a competing integrated solution, there is competition with respect to individual elements of our solution. We also believe that competition may increase substantially as the introduction of new technologies and potential regulatory changes create new opportunities for established and emerging companies.

We face competition from semiconductor device suppliers, software development companies and vertically integrated telecommunications equipment vendors. We believe our principal competitors for each of our products include:

. Proton, our family of ASICs: devices from Motorola, PMC-Sierra and Transwitch;

. Hydrogen, Helium and Lithium, our PHY-neutral ASSPs: devices from BASIS Communications, Motorola and IDT;

. Beryllium, our planned integrated PHY, G.lite/V.90 product: devices from Alcatel Microelectronics, Analog Devices, Centillium Technology, Conexant Systems, Lucent Technologies and Texas Instruments; and . Software: operating systems and software stacks from Wind River Systems and Integrated Systems; and networking and protocol layer software from Harris & Jeffries, Iverness Systems, Microsoft and Trillium.

In addition, there have been a number of announcements by other semiconductor companies including IBM and Intel and smaller emerging companies that they intend to enter the market segments adjacent to or addressed by our products.

Many of the companies that compete, or may compete against us in the future, have longer operating histories, greater name recognition, larger installed customer bases and significantly greater financial, technical and / or marketing resources. As a result, they may be able to respond more quickly to changing customer circumstances or to devote greater resources to the development, promotion and sale of their products than we can. We cannot be sure that our current or future competitors will not develop and introduce new products that will be priced lower, provide superior performance or achieve greater market acceptance than our products. Furthermore, current or potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of our prospective customers. Accordingly, it is possible that new alliances among our competitors will emerge and rapidly acquire market share, which would harm our business.

In addition, many of our customers and potential customers have substantial technological capabilities and financial resources. Some customers have already developed, or in the future may develop, technologies that will compete directly with our products and services. Because these companies do not purchase all of their semiconductors from suppliers such as us, if they displace our customers in the equipment market, our customers would no longer need our products, and our business, financial condition and results of operations would be seriously harmed.

Given the highly competitive environment in which we operate, we cannot be sure that any current competitive advantages enjoyed by our products will be sufficient to establish or sustain our position in the market. Any increase in price from our suppliers or other competition could result in erosion of our market share and could harm our business, financial condition and results of operations. We cannot be sure that we will have the financial resources, technical expertise or marketing and support capabilities to continue to compete successfully.

Intellectual Property We rely primarily on a combination of patents, copyrights, trademarks, trade secret laws, contractual provisions, licenses and maskwork protection to protect our intellectual property. We also enter into confidentiality agreements with our employees, consultants and customers and seek to control access to, and distribution of, our other proprietary information. However, these measures afford only limited protection. There is no guarantee that such safeguards will protect our intellectual property and other valuable competitive information.

Our success depends significantly upon our ability to protect our intellectual property. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. Our competitors may also independently develop similar technologies. In addition, in the past, competitors have recruited our employees who have had access to our proprietary technologies, processes and operations. Our competitors' recruiting efforts, which we expect will continue, expose us to the risk that such employees will misappropriate our intellectual property. Furthermore, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. Many U.S. companies have encountered substantial infringement problems in such countries, some of which are countries in

which we have sold and continue to sell products. There is a risk that our means of protecting our proprietary rights may not be adequate. Our failure to adequately protect our proprietary rights may seriously harm our business.

As of August 31, 1999, we have been granted one patent in the United States, with three counterpart patents in other countries. Our patents have expiration dates ranging from 2016 to 2017. In addition, we have nine patent applications pending in the United Kingdom and four pending in the United States. We also have 24 patent applications pending in various countries other than the United Kingdom and the United States. These patents may never be issued. Even if these patents are issued, taken together with our existing patents, they may not provide sufficiently broad protection to protect our proprietary rights, or they may prove to be unenforceable. We also utilize unpatented proprietary know-how and trade secrets and employ various methods to protect our trade secrets and know-how.

From time to time, we may desire or be required to renew or to obtain licenses from others in order to further develop and market commercially viable products effectively. We cannot be sure that any necessary licenses will be available or will be available on reasonable terms.

We have registered the trademarks "Virata," "ATMOS" and "ATOM." "ISOS," "Proton," "Helium," "Hydrogen," "Lithium," and "Beryllium" are also our trademarks.

Legal Proceedings

We are not currently a party to any legal proceedings, nor to our knowledge, is any such proceeding threatened.

Employees

As of June 30, 1999, we had 113 full-time employees in our worldwide operations. Of that total, 79 were primarily engaged in engineering, 13 were engaged in sales and marketing and the remainder were engaged in operational, financial and administrative functions. As of June 30, 1999, 12 of our employees were located at our facilities in Santa Clara, California, 65 of our employees were located at our facilities in Cambridge, England, and 36 were located at our facilities in Raleigh, North Carolina. None of our employees are covered by, nor are we a party to, any collective bargaining agreement. We believe our employee relations are good.

Facilities

Our headquarters are located in Santa Clara, California, where we lease approximately 13,000 square feet of office space in Santa Clara, California, under a lease that expires in September 2001. Approximately 4,500 square feet of our Santa Clara facility is subleased to a third party under a lease that expires in September 2001. Additionally, we lease approximately 9,600 square feet of office and laboratory space in Cambridge, England, under two leases that expire in 2004 and 2005 and approximately 13,200 square feet of office space in Raleigh, North Carolina, under a lease that expires in September 2003. We believe that our current facilities are adequate to conduct our business operations for the foreseeable future.

Management

Directors, Executive Officers and Key Employees Our current board of directors consists of Messrs. Charles Cotton, Hermann Hauser, Bandel Carano and Peter Morris. Our current executive officers are Charles Cotton, Michael Gulett and Andrew Vought. Following this offering, our directors, executive officers and key employees are expected to be as follows:

Name Age Position

Charles Cotton..... 52 Chief Executive Officer and Director Michael Gulett..... 46 President, Chief Operating Officer Andrew Vought..... 44 Senior Vice President, Finance, Chief Financial Officer and Secretary Daniel Karr..... 39 Vice President, Worldwide Sales Martin Jackson..... 40 Chief Technology Officer and Director Thomas Cooper..... 50 Senior Vice President, Corporate Development Duncan Greatwood..... 32 Vice President, Marketing Bernard Glasauer..... 38 Vice President, Operations Wayne Whitlock..... 40 Vice President, Engineering Dr. Paul Walsh..... 39 Vice President, Software Engineering Dr. Hermann Hauser..... 50 Chairman of the Board Marco De Benedetti..... 37 Director Gary Bloom..... 38 Director Bandel Carano..... 38 Director Prof. Andrew Hopper..... 46 Director Peter Morris..... 43 Director Patrick Sayer..... 41 Director Giuseppe Zocco..... 33 Director Charles Cotton has been our Chief Executive Officer since September 1997. Mr. Cotton joined us in January 1995, first as a consultant, and then in August 1995 as our General Manager, Europe, and was subsequently promoted to Chief Operating Officer in July 1996. From January 1991 to December 1995, Mr. Cotton was an independent consultant. In 1990, he served as Chief Executive Officer of Shandwick Europe, a public relations consulting firm. From 1988 to 1989, Mr. Cotton served as President of Thermal Scientific and as a Director of its parent company, Thermal Scientific plc. From 1983 to 1986, he served in a variety of international marketing and operations functions for Sinclair Research. Mr. Cotton holds an honors degree in Physics from Oxford University.

Michael Gulett joined us in November 1998 as Chief Operating Officer and was promoted to President and Chief Operating Officer in June 1999. Prior to joining us, Mr. Gulett was President and Chief Executive Officer at Paradigm Technology, a developer of fast, static memory solutions, in Milpitas, California, from February 1993 to June 1998. Mr. Gulett has also held management positions at VLSI Technology, California Devices, Intel Corporation and NCR. Mr. Gulett holds a B.S.E.E. from the University of Dayton.

Andrew Vought joined us in May 1996 as Chief Financial Officer and was named Senior Vice President of Finance and Operations in September 1997. From January 1995 to May 1996, Mr. Vought founded and served as a General Partner of Cheyenne Capital Corporation, a private venture capital firm. From May 1990 to July 1994, Mr. Vought served as Chief Financial Officer of Micro Power Systems, an analog semiconductor company. From July 1985 to May 1990, Mr. Vought held senior finance and manufacturing management positions with Diasonics. Prior to joining Diasonics, Mr. Vought spent several years in the European semiconductor operations of Texas Instruments. Mr. Vought currently

serves on the board of directors of SCM Microsystems, a supplier of digital access control and connectivity solutions. Mr. Vought holds an M.B.A. from the Harvard Business School and a B.S. in Finance and a B.A. in Environmental Studies from the University of Pennsylvania.

Daniel Karr became our Vice President, Worldwide Sales in August 1999. Prior to joining us, Mr. Karr was Vice President of Worldwide Sales at S3, a supplier of multimedia hardware and software for the PC market, since April 1996. From January 1988 to April 1996, Mr. Karr held various positions at Cirrus Logic, a manufacturer of integrated circuits, where his last position was Sales Director. Mr. Karr earned a B.A. in Physics and Mathematics from Linfield College.

Martin Jackson is our Chief Technology Officer and has directed new product development since joining us in April 1994. Prior to joining us, Mr. Jackson was a co-founder and Director and Vice President of Technology of EO (formerly Active Book Company), a company involved in the development of pen-based computers, from 1988 to April 1994. Mr. Jackson also co-founded Tadpole Technology, a developer of high performance computer boards. Mr. Jackson is acknowledged as a leader in the application of asynchronous transfer mode technology for provisioning broadband in the local loop and serves on the board of directors of the ADSL Forum. Mr. Jackson holds an M.A. in Electrical Sciences from the University of Cambridge and a M.A. Engineering from the University of Cambridge.

Thomas Cooper is our Senior Vice President, Corporate Development and has been employed by us in various capacities since December 1994. Prior to joining us, Mr. Cooper served as Vice President of Distribution for Network Equipment Technologies Inc., an early entrant into in the asynchronous transfer mode market, from 1992 to December 1994. He holds an M.B.A. from the University of Ohio, Toledo and a B.A. in English from Hamilton College.

Duncan Greatwood is our Vice President, Marketing, having previously been our Vice President, European Sales. Mr. Greatwood joined us in November 1997. Before being hired by us, Mr. Greatwood held a variety of management positions in the software engineering and marketing functions of Madge Networks, a network equipment company, from 1989 to November 1997. At Madge Networks, Mr. Greatwood was responsible for activities in the areas of voice-over-Information Processing and multiservice networking. Mr. Greatwood holds a degree in mathematics from Oxford University and an M.B.A. from London Business School.

Bernard Glasauer is our Vice President, Operations and joined us in June 1999. Prior to joining us, Mr. Glasauer was Vice President of Engineering at Cypress Semiconductor from August 1988 to May 1999. Mr. Glasauer holds a B.S. degree in Electrical Engineering/Computer Science and Materials Science Engineering from the University of California, as well as a B.A. in Economics.

Wayne Whitlock is our Vice President, Engineering and joined us in July 1998. Prior to joining us, Mr. Whitlock was Vice President, Engineering for RSA Communications, the predecessor of Virata Raleigh Corporation, from October 1994 to July 1998. Prior to that Mr. Whitlock was a Program Manager with the Wireless Mobile Data Division for IBM from July 1981 to October 1994, developing PCMCIA wireless WAN devices for portable PCs. Mr. Whitlock holds a B.S. degree in Electrical Engineering from Virginia Tech.

Dr. Paul Walsh is our Vice President, Software Engineering and joined us in January 1999. Prior to joining us, Dr. Walsh was Senior Manager--Engineering, at Ionica plc, from November 1995 to January 1999. In this role he was responsible for the development and delivery of network planning and network management systems to Ionica's network operations and recruited a team of 30 to work with him. Prior to Ionica, Dr. Walsh held a Senior Manager role at Nortel/BNR Europe, from January 1992 to October 1995, where he was responsible for the design, build and delivery of systems to provide Network Management of Telephony over Passive Optical Networks. Dr. Walsh holds a Ph.D. in Psychology from the City of London Polytechnic, an M.Sc. (Distinction) in Social Psychology from London School of Economics and a B.A. (1st Class Hons) in Psychology from the University College, Galway.

Dr. Hermann Hauser is one of our co-founders and serves as our Chairman. Dr. Hauser's principal occupation is Director of Amadeus Capital Partners Ltd., a venture capital fund management company. He has held this position since December 1997. Dr. Hauser has also co-founded more than 20 other high technology companies, including Acorn Computer Group plc, EO Ltd., Harlequin, IXI Ltd., Vocalis, Electronic Share Information, Advanced Displays Limited and SynGenix. Dr. Hauser holds a Ph.D. in Physics from Cambridge University.

Marco De Benedetti is Chairman and Managing Director of Telecom Italia Mobile S.p.A., Europe's largest cellular phone operator. He has held that position since July 1999. Prior to joining Telecom Italia, Mr. De Benedetti was chairman of Infostrada S.p.A., a company controlled by Telecom Italia operating as an alternative fixed line carrier in Italy. Prior to joining Infostrada in 1990, Mr. De Benedetti worked for the investment bank Wasserstein, Parella & Co. in mergers and acquisitions from 1987 to 1989. Mr. De Benedetti holds an M.B.A. from the Wharton School of the University of Pennsylvania and a B.S. in Economics and History from Wesleyan University.

Gary Bloom is Executive Vice President of the System Products Division of Oracle Corporation and has been employed by Oracle since September 1986. Mr. Bloom received a B.S. degree in Computer Science from California Polytechnic State University at San Luis Obispo.

Bandel Carano is a General Partner of Oak Investment Partners in Palo Alto, California, a private venture capital firm, which he joined in 1985. Mr. Carano currently serves as a member of the Investment Advisory Board of the Stanford University Engineering Venture Fund. Mr. Carano also serves as a member of the board of directors of Metaware Communications Corp., Polycom and Pulse Point Communications, as well as several private companies. Mr. Carano holds both an M.S. and a B.S. in Electrical Engineering from Stanford University.

Professor Andrew Hopper is one of our co-founders. Since November 1997 Professor Hopper has been Professor of Communications within the Department of Engineering at Cambridge University and since 1986, Managing Director of the Olivetti Research Laboratory, now AT&T Research, Cambridge. Professor Hopper is considered one of the early developers of asynchronous transfer mode technology and has over 20 years experience in networking, computer systems and multimedia. Professor Hopper

is also involved with the commercialization of technology with a number of Cambridge-area firms. Professor Hopper is a Fellow of the Royal Academy of Engineering and holds a Ph.D. and a B.Sc. from Cambridge University.

Peter T. Morris is a General Partner of New Enterprise Associates in Menlo Park, California, where he has been employed since 1992. Mr. Morris specializes in information technologies, with a focus on communications and the Internet. His current board memberships include Accelerated Networks, AUNET, Gadzoox, LoanCity.com, LuxN, Mayan Networks, NanoSpace, Packetcom, Packeteer and Tiara Networks. Before joining New Enterprise Associates, Mr. Morris served in various capacities with Telebit from 1987 to 1991. Prior to that he was with Montgomery Securities, an investment bank, from 1985 to 1987, and Bain and Company, a management consultancy, from 1980 to 1982. Mr. Morris holds an M.B.A. and a B.S. in Electrical Engineering from Stanford University.

Patrick Sayer is a General Partner of Lazard Freres et Cie, a French investment bank, where he oversees the technology, telecommunications and media sectors. Mr. Sayer has worked within the Lazard Freres Group throughout his career, first joining its international advisory group, which advises foreign governments, then spending six years in the corporate finance department and then joining the mergers and acquisitions department in 1992. In addition, Mr. Sayer is the Chairman of the Investment Committee of Eurafrance and Gaz et Eaux, two French listed holding companies that are ultimately controlled by the Lazard Freres Group. Mr. Sayer is a graduate of Ecole Polytechnique and Ecole des Mines de Paris.

Giuseppe Zocco is a General Partner of Index Ventures, a private venture capital firm based in Geneva, Switzerland, which he joined in 1996. Prior to joining Index Ventures, Mr. Zocco was a management consultant with McKinsey and Company from 1988 to 1996, working in several of its European offices and its EuroCenter, a special consulting unit focused on Pan-European clients. During his career at McKinsey, Mr. Zocco advised several major corporations on a number of strategic and organizational matters. Mr. Zocco holds an M.B.A. from Stanford Business School, a B.A. in finance from Bocconi University in Milan, and an I.E.P. from the London Business School. He is a director of Belle Systems A/S and Evolve Software.

Board Committees

Our board of directors currently consists of four directors. Following this offering, our board of directors is anticipated to consist of ten directors, each holding office until the next annual meeting of stockholders. Following this offering, our board of directors is also anticipated to have an Executive Committee, Compensation Committee, Audit Committee and Director Compensation Committee.

Executive Committee. The executive committee of our board of directors is anticipated to consist of Messrs. Cotton, Hauser, Carano and Morris. The executive committee will be authorized to act with respect to all matters arising before the board, except for matters which require stockholder approval or where prohibited by Delaware law, including a sale of our company.

Compensation Committee. The compensation committee will review and make recommendations to the board regarding all forms of compensation provided to our executive officers, including stock compensation and loans. In addition, the compensation committee will review and make recommendations on stock compensation arrangements for all of our other employees. As part of the foregoing, the compensation committee will administer our stock incentive plans. The members of the compensation committee are anticipated to be Messrs. Hauser, Carano and Zocco.

Audit Committee. The audit committee will monitor our corporate financial reporting and the internal and external audits, including our internal audit and control functions, the results and scope of the annual audit and other services provided by our independent auditors and our compliance with legal matters that have a significant impact on our financial reports. The audit committee will also consult with our management and our independent auditors prior to the presentation of financial statements to stockholders and, as appropriate, initiates inquiries into aspects of our financial affairs. In addition, the audit committee will have the responsibility to consider and recommend the appointment of, and to review fee arrangements with, our independent auditors. The members of the audit committee are anticipated to be Messrs. Bloom, Morris and Zocco.

Director Compensation Committee. The director compensation committee will review and make recommendations to the board regarding all forms of compensation provided to our non-employee directors. As part of the foregoing, the Director Compensation Committee will administer our director stock compensation plan that we anticipate adopting prior to this offering. The members of the director compensation committee are anticipated to be Messrs. Cotton and Jackson.

Director Compensation Directors who are our full-time employees receive no additional compensation for serving on our board of directors or its committees; however, each director will be reimbursed for his or her out-of-pocket expenses in attending board meetings. Following this offering, it is anticipated that directors who are not our employees will receive compensation for participation in meetings of our board of directors and serving on and attending meetings of either the compensation or the audit committees. See "Certain Transactions" for a description of transactions involving directors or their affiliates and us, if any.

Prior to this offering, we anticipate that we will adopt a stock compensation plan for our non-employee directors, commensurate with plans offered by companies in our industry or related industries.

Compensation Committee Interlocks and Insider Participation Prior to this offering, our board of directors did not have a compensation committee and all compensation decisions were made by our full board of directors. In the fiscal year ended March 31, 1999, the full board of directors determined the compensation of all executive officers, including Mr. Cotton in his capacity of Chief Executive Officer. Upon completion of this offering, it is anticipated that the compensation committee will make all compensation decisions. We are not aware of any interlocking relationship existing between our board of directors or proposed compensation committee and the board of directors or compensation committee of any other company, nor are we aware of any such interlocking relationship existing in the past.

Executive Compensation The following table sets forth the approximate cash compensation (including cash bonuses) paid or awarded by us for the fiscal year ended March 31, 1999 to our Chief Executive Officer and the other four most highly compensated executive officers who were serving as executive officers as of March 31, 1999 (the "Named Executive Officers").

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation Salary($)	Annual Compensation Bonus($)	Long-Term Compensation Securities Underlying Options(#)	All Other Compensation($)
Charles Cotton.....	1999	224,940	60,000	725,000	24,000(1)
Chief Executive Officer and Director					
Michael Gulett(2).....	1999	82,372	54,167	1,600,000	1,827(3)
President and Chief Operating Officer					
Andrew Vought.....	1999	184,875	40,000	375,000	1,230(4)
Senior Vice President, Finance, Chief Financial Officer and Secretary					
Martin Jackson.....	1999	128,099	--	300,000	8,392(5)
Chief Technology Officer and Director					
Thomas Cooper.....	1999	153,606	30,250	550,000	1,273(6)
Senior Vice President Corporate Development					

(1) Represents an accrued pension contribution paid by us for the benefit of Mr. Cotton under our pension arrangement. (2) Mr. Gulett was hired in November 1998 and, therefore, such amounts are for less than a full year. (3) Represents a matching contribution paid by us for the benefit of Mr. Gulett under our 401(k) plan. (4) Represents a matching contribution paid by us for the benefit of Mr. Vought under our 401(k) plan. (5) Represents an accrued pension contribution paid by us for the benefit of Mr. Jackson under our pension arrangement. (6) Represents a matching contribution paid by us for the benefit of Mr. Cooper under our 401(k) plan.

Option Grants in Fiscal Year Ended March 31, 1999

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term ($)(3)	
Name	Number of Shares Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year (%)(1)	Exercise or Base Price ($/sh)(2)	Expiration Date	5%	10%
Charles Cotton.....	725,000	7.0	0.70	4/28/05	206,603	481,474
Michael Gulett.....	1,600,000	15.4	0.70	11/13/05	455,952	1,062,563
Andrew Vought.....	375,000	3.6	0.70	4/28/05	106,864	249,038
Martin Jackson.....	300,000	2.9	0.70	4/28/05	85,491	199,231
Thomas Cooper.....	550,000	5.3	0.70	4/28/05	156,734	365,256

(1) Based on a total of 10,380,194 options to purchase shares of our common stock granted during the fiscal year ended March 31, 1999.

(2) The exercise price was equal to the fair market value of our common stock as determined by our board of directors on the date of grant. (3) The potential realizable value is calculated based on the seven year term of the options at the time of grant. Stock price appreciation of 5% and 10% is assumed pursuant to the rules promulgated by the Securities and Exchange Commission and does not represent our prediction of our stock price performance. The potential realizable value at 5% and 10%

appreciation is calculated by assuming that the exercise price in the date of grant appreciates at the indicated rate for the entire term of the option and that the option is exercised at the exercise price and sold on the last day of its term at the appreciated price.

Aggregated Option Exercises in the Last Fiscal Year and Fiscal Year End Option Values The table below sets forth information with respect to the ownership and value of options held by the Named Executive Officers identified in the summary compensation table as of March 31, 1999. No options were exercised by these individuals during the fiscal year ended March 31, 1999. We have no outstanding stock appreciation rights.

	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-the-Money Options at Fiscal year End ($)(1)	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
Charles Cotton.....	635,625	1,364,375	696,696	1,119,805
Michael Gulett.....	--	1,600,000	--	960,000
Andrew Vought.....	482,500	767,500	529,867	648,633
Martin Jackson.....	383,750	466,250	458,108	356,492
Thomas Cooper.....	306,667	693,333	355,467	481,933

(1) Based on a fair market value of our common stock as of June 15, 1999 equal to $1.30 per share, less the exercise price payable for such shares.

Employment Agreements Each of our Named Executive Officers is a party to an employment agreement with Virata Limited. Following this offering, we anticipate that we will assume each of these employment agreements.

Charles Cotton. Under the terms of his employment agreement dated September 17, 1997, as amended on May 1, 1999, Mr. Cotton receives an annual base salary of (Pounds)155,875, with an additional bonus of $120,000 upon successful achievement of specific objectives. Mr. Cotton is entitled to the participate in our stock incentive plans. As of August 31, 1999, Mr. Cotton had received options to purchase an aggregate of ,660,000 shares of our common stock at a weighted average exercise price of $0.62 per share. In general, these options vest equally over four years. Mr. Cotton is also entitled to a bonus of up to $500,000 in the event we are sold during the term of his employment. We may terminate Mr. Cotton's employment for cause at any time, or without cause upon 18 months written notice from the termination date. Mr. Cotton may voluntarily resign upon six months written notice of his intention to leave.

Michael Gulett. Under the terms of his employment agreement dated October 14, 1998, Mr. Gulett receives an annual base salary of $225,000, with an additional bonus of $100,000 upon successful achievement of specific objectives. Mr. Gulett is entitled to participate in our stock incentive plans. As of August 31, 1999, Mr. Gulett had received options to purchase an aggregate of 2,260,000 shares of our common stock at a weighted average exercise price of $0.88 per share. These options vest equally over four years. The employment agreement may be terminated by Mr. Gulett or us at any time, with or without cause. In the event that Mr. Gulett is terminated without cause or following a change in our control, Mr. Gulett will be entitled to salary continuation and vesting of his share options for the 12 month period following termination.

Andrew Vought. Under the terms of his employment agreement dated May 10, 1996, as amended May 1, 1999, Mr. Vought receives an annual base salary of $182,750 with an additional bonus of $75,000 upon successful achievement of specific objectives. Mr. Vought is entitled to participate in our stock incentive plans. As of August 31, 1999, Mr. Vought had received options to purchase an aggregate of 1,650,000 shares of our common stock at a weighted average exercise price of $0.59 per share. In general, these options vest equally over four years. Mr. Vought is also entitled to a bonus of up to $ in the event we are sold during the term of his employment agreement. The employment agreement may be terminated by Mr. Vought or us at any time, with or without cause. In the event that Mr. Vought is terminated without cause or following a change in our control, Mr. Vought will be entitled to salary continuation and vesting of his share options for the 18 month period following termination.

Martin Jackson. Under the terms of his employment agreement dated May 5, 1997, Mr. Jackson receives an annual base salary of (Pounds)81,969. Mr. Jackson is entitled to participate in our stock incentive plans. As of August 31, 1999, Mr. Jackson had received options to purchase an aggregate of 1,025,000 shares of our common stock at a weighted average exercise price of $0.51 per share. In general, these options vest equally over four years. We may terminate Mr. Jackson's employment for cause at any time, or without cause upon 12 months written notice from the termination date. Mr. Jackson may voluntarily resign upon three months written notice of his intention to leave.

Thomas Cooper. Under the terms of his employment agreement dated December 16, 1994, Mr. Cooper receives an annual base salary of $161,250, with an additional bonus of $30,000 upon successful achievement of specific objectives. Mr. Cooper is entitled to participate in our stock incentive plans. As of August 31, 1999, Mr. Cooper had received options to purchase an aggregate of 1,200,000 shares of our common stock at a weighted average exercise price of $0.60 per share. These options vest equally over four years. The employment agreement may be terminated by Mr. Cooper or us at any time, with or without cause. In the event that Mr. Cooper is terminated without cause or following a change in our control, Mr. Cooper will be entitled to salary continuation and vesting of his share options for the 12 month period following termination.

Employee Stock Option Plan Prior to the consummation of this offering, we anticipate that we will adopt the Virata Corporation 1999 Stock Incentive Plan. We anticipate that the plan will also be approved by our stockholders prior to the consummation of this offering. The 1999 Stock Incentive Plan will not limit any award to any specified form or structure. The types and amount of awards will be determined at the discretion of the board of directors or a committee of the board of directors empowered to administer the 1999 Stock Incentive Plan. We anticipate that the compensation committee of the board of directors will administer the 1999 Stock Incentive Plan following this offering. The maximum number of shares of our common stock that may be issued under the 1999 Stock Incentive Plan is shares. If incentive stock options are issued, these options must comply with Section 422 of the Internal Revenue Code. Any of our employees, non- employee directors, independent contractors or consultants or those of our subsidiaries are eligible to be considered for the grant of an award under our 1999 Stock Incentive Plan. The board of directors may amend or terminate the 1999 Stock Incentive Plan at any time and in any matter, subject to the rights of recipients of awards under the plan, and subject to any required stockholder approvals and the

requirements of Sections 411 and 162(m) of the Internal Revenue Code. The 1999 Stock Incentive Plan will terminate on , 2019. We will issue stock options to our employees under the 1999 Stock Incentive Plan by way of individual option agreements with each employee.

As of August 31, 1999 there were options outstanding to purchase 19,019,214 ordinary shares issued to our employees under the plans of or agreements with Virata Limited. The outstanding options are exercisable at a price per share ranging between $0.02 and $1.30 and generally vest over a four- year period from the date of grant. These options are granted in three specific categories: ordinary, top-up and bonus. Top-up options are granted to employees whose ordinary options have fully vested on a purely discretionary basis. Top- up options are subject to the same vesting schedule as ordinary options. Bonus options vest on the date granted and are generally subject to completion of individual performance targets by the option holder. All options are non- transferable, but form part of the option holder's estate in the event of death. An option may be exercised in whole or in part, but not more that three times in the period commencing on the first anniversary of the date of grant of the option and ending on the seventh anniversary of the date of its grant. An option lapses on the seventh anniversary from the date of its grant. In the event that a general offer is made to the holders of our common stock to acquire all of the outstanding shares of our common stock, we are required to use our best efforts to ensure that the offer is extended to the option holders. If an option holder ceases to be our employee for any reason, any options unexercised on such date and in respect of which a right of exercise has accrued must be exercised within 90 days of such date. Upon the expiration of this 90 day period, any options that remain unexercised will lapse. Prior to the consummation of this offering these options will become convertible or exercisable into shares of our common stock.

Employee Stock Purchase Plan Prior to the consummation of this offering, we anticipate that we will adopt an employee stock purchase plan for our employees, commensurate with plans offered by companies in our industry or related industries.

Employee Benefit Plans We have two benefit plans, one in the United Kingdom, and a separate plan in the United States. The United Kingdom plan includes private health care, permanent health insurance, death in service coverage and a pension arrangement. In addition, under the United Kingdom plan, we match contributions of up to 5% of an employee's salary to the Standard Life Personal Pension Arrangement.

The United States plan includes a medical plan, life insurance, accidental death and dismemberment insurance, long term disability, IRC Section 125 premium payment plan, COBRA and a 401(k) retirement plan. Under the United States plan, we also provide a 50% matching contribution to the retirement plan of up to $2,000 per calendar year per employee.

Limitation of Liability and Indemnification Matters Our Certificate of Incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Our bylaws provide that we shall indemnify each of our directors and officers against expenses (including attorney's fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was one of our directors or officers or

serving as director or officer of another corporation, partnership, joint venture, trust, or other enterprise at our request. We have also entered into agreements to indemnify directors and certain executive officers.

Certain Transactions

The following is a description of transactions during our last three fiscal years to which we have been a party, in which the amount involved in the transaction exceeds $60,000 and in which any director, executive officer or holder of more than 5% of our capital stock had or will have a direct or indirect material interest other than compensation arrangements that are otherwise required to be described under "Management."

Issuances of Ordinary Shares During the past three fiscal years, we have issued ordinary shares of Virata Limited as follows:

. In July 1998, we sold 1,540,000 ordinary shares in a private placement at a purchase price of $1.01 per share in connection with the acquisition of RSA Communications; and . We have issued an aggregate of 1,200,644 ordinary shares in connection with the exercise of options by our employees.

Issuances of Preferred Stock During the past three fiscal years, we have issued preference shares and warrants for preference shares of Virata Limited as follows:

. In May 1996, we sold 5,127,485 Series B preference shares in a private placement at a purchase price of (Pounds)0.70 per share;

. In June 1996, we sold 6,666,667 Series C preference shares in a private placement at a purchase price of $1.50 per share;

. In December 1997 and January 1998, we issued an aggregate amount of $2,642,980 of bridge notes that were convertible into our Series D preference shares.

. In March 1998, we issued a bridge note to Index Securities S.A. in the amount of $700,000 that was convertible into our Series D preference shares.

. In June 1998, we sold 24,780,934 Series D preference shares in a private placement at a purchase price of $1.10 per share;

. In June 1998, we issued 3,039,073 Series D preference shares in a private placement at a purchase price of $1.10 per share in connection with the conversion of bridge notes held by certain of our stockholders;

. In June 1998, we issued 15,123,062 Series D preference shares in a private placement at a purchase price of $1.10 per share in connection with the conversion of 12,460,150 Series B preference shares and 2,000,000 Series C preference shares, . In June 1998, we sold 606,500 Series D preference shares in a private placement at a purchase price of $1.10 per share in connection with the acquisition of RSA Communications;

. In June 1998, we issued warrants to purchase an aggregate of 1,595,054 Series D Preference Shares for $1.10 per share to Index Securities S.A. in connection with its acting as placement agent in our Series D preference share financing; and . In June 1998, we sold 21,818 Series D preference shares to Andrew Hopper in a private placement in exchange for Mr. Hopper serving on our technology advisory board.

Our officers, directors and 5% stockholders participated in the foregoing transactions as follows:

Name of Purchaser	Number of Series B Shares	Number of Series C Shares	Number of Series D Shares	Bridge Notes and Warrants(1)
Gaz et Eaux.....	--	--	7,348,111	--
New Enterprise Associates.....	766,883(2)	--	5,582,978(3)	343,275
Oak Investment Partners Limited(4).....	1,429,530(2)	--	7,945,331(5)	488,508
Olivetti Telemedia Investments B.V.	--	--	870,239(6)	627,814
Oracle Corporation.....	--	6,667,667(7)	4,194,421(8)	558,057
3i plc.....	2,931,072(2)	--	3,836,628(9)	245,355
Charles Cotton.....	--	--	--	--
Michael Gulett.....	--	--	--	--
Andrew Vought.....	--	--	--	--
Martin Jackson.....	--	--	--	--
Thomas Cooper.....	--	--	--	--
Dr. Hermann Hauser.....	--	--	75,152(10)	75,152
Marco De Benedetti.....	--	--	--	--
Gary Bloom(11).....	--	6,667,667	4,194,421	558,057
Bandel Carano(12).....	1,429,530	--	7,945,331	488,508
Prof. Andrew Hopper.....	--	--	40,000(13)	18,182
Peter Morris(14).....	766,883	--	5,582,978	343,275
Patrick Sayer(15).....	--	--	7,348,111	--
Giuseppe Zocco(16).....	--	--	1,290,920	2,231,418
All of our directors and executive officers as a group (14 persons).....	5,127,485	6,666,667	31,183,780	4,587,761

(1) All of the bridge notes were subsequently converted into Series D preference shares in June 1998. (2) Such shares were converted into Series D preference shares in June 1998. (3) Includes 343,275 Series D preference shares issued upon conversion of bridge notes in June 1998. (4) Includes shares beneficially owned by Oak VI Affiliated Fund Limited. (5) Includes 488,508 Series D preference shares issued upon conversion of bridge notes in June 1998. (6) Includes 627,814 Series D preference shares issued upon conversion of bridge notes in June 1998. (7) 2,000,000 of such shares were converted into Series D preference shares in June 1998 in June 1998. (8) Includes 558,057 Series D preference shares issued upon conversion of bridge notes in June 1998. (9) Includes 245,355 Series D preference shares issued upon conversion of bridge notes in June 1998. (10) Represents Series D preference shares issued upon conversion of bridge notes in June 1998 held by Providence Investment Company Ltd, a Company wholly owned by Providence Trust, of which Mr. Hauser may be a beneficiary. (11) Represents shares of our common stock beneficially owned by Oracle Corporation, of which Mr. Bloom is an Executive Vice President. Mr. Bloom disclaims all beneficial ownership of these shares. (12) Represents shares of our common stock beneficially owned by Oak Investment Partners, of which Mr. Carano is the General Partner. Mr. Carano disclaims all beneficial ownership of these shares. (13)

Includes 18,182 Series D preference shares issued upon conversion of bridge notes in June 1998 and 21,818 Series D preference shares issued in exchange for Mr. Hopper creating our technology advisory board. (14) Represents shares of our common stock beneficially owned by New Enterprise Associates, of which Mr. Morris is the General Partner. Mr. Morris disclaims all beneficial ownership of these shares. (15) Represents shares of our common stock beneficially owned by Gaz et Eaux, of which Mr. Sayer is the General Partner. Mr. Sayer disclaims all beneficial ownership of these shares. (16) Includes 636,364 Series D preference shares issued upon conversion of bridge notes in June 1998 and 1,595,054 Series D preference shares issuable upon the exercise of a warrant. Represents shares of our common stock beneficially owned by Index Securities, S.A., and its affiliates Societe Financiere Mirelis S.A. and The Index Special Situations Fund, of which Mr. Zocco is the General Partner. Mr. Zocco disclaims all beneficial ownership of these shares.

Immediately prior to the consummation of this offering, all of the outstanding ordinary and preference shares, and any other securities that are convertible into ordinary and preference shares, of Virata Limited will be cancelled, new ordinary shares of Virata Limited will be issued to Virata Corporation and shares of common stock of Virata Corporation will be issued to the former shareholders of Virata Limited. These transactions will take place immediately prior to the consummation of this offering and will be effected pursuant to a share reconstruction under Section 425 of the United Kingdom Companies Act of 1985. Any securities that are convertible or exercisable into ordinary shares or preference shares of Virata Limited will become convertible or exercisable into shares of our common stock upon consummation of the share reconstruction.

Acorn Computer

We entered into a technology license, manufacturing license and supply agreement with Acorn Computer Group plc, in October 1998, pursuant to which Acorn is able to manufacture certain ATM hardware with binary software and software designs employing integrated circuits purchased from us. Acorn Computer Group changed its name to Element 14 and the license was subsequently transferred to Pace Electronics. For the three year period ended August 31, 1999, we had sales to Acorn of approximately $674,000 and purchases from Acorn of approximately $7,500. Dr. Hauser, Prof. Hopper and Mr. De Benedetti are directors of Element 14. Messrs. Hauser, Hopper and Dr. Benedetti have no affiliation with Pace Electronics.

Adaptive Broadband Limited We entered into a technology license, manufacturing license and supply agreement in March 1998, as amended in May 1999, with Adaptive Broadband Limited, or ABL, a wholly owned subsidiary of Adaptive Broadband Corporation, formerly California Microwave. Under the agreement, ABL has licensed our software and is able to design, manufacture and sell products incorporating integrated circuits purchased from us. Prof. Hopper is a director of ABL. To date, we have received approximately $495,000 in license fees and product purchases from ABL and, as of August 31, 1999, there was no outstanding balance owed to us.

Advanced RISC Machines We entered into a consulting arrangement in November 1997 with Advanced RISC Machines Ltd., a United Kingdom corporation. Under the agreement Advanced RISC Machines provided us with services relating to the development of the Lithium integrated circuit. We

entered into a per semiconductor design license agreement in June 1999 under which we are able to design, have manufactured and sell integrated circuits incorporating the ARM RISC microprocessor core. We also entered into a limited use software agreement in June 1999, which provides us with a six month evaluation license for certain software. Acorn Computer Group plc, of which Dr. Hauser, Prof. Hopper and Mr. De Benedetti are directors, owned approximately 40% of Advanced RISC Machines Ltd. at the time the foregoing agreements were entered into. We have paid approximately $954,000 in fees to ARM under these agreements as of August 31, 1999 and currently have an outstanding balance owed of approximately $226,000.

Olivetti

We entered into a formation and license agreement in December 1993, as supplemented in April 1994 and September 1994, with Olivetti Telemedia and its parent, Ing. C. Olivetti & C. S.p.A. Pursuant to the license agreement, we were granted an exclusive, world-wide license to exploit certain technology, subject to certain conditions, and agreed to cooperate with respect to certain technological matters, in exchange for an option, which has been fully exercised. Additionally, we entered into an agreement with an affiliate of Olivetti Telemedia in July 1995, under which we sold systems products to Olivetti and its affiliates. For the three year period ended August 31, 1999, we had sales to Olivetti Telemedia and its affiliates of approximately $209,000 and purchases from Olivetti Telemedia and its affiliates of approximately $10,000. As of August 31, 1999, Olivetti Telemedia held approximately 9.8% of our common stock.

Telemedia Systems Limited We occasionally buy products from and sell products to Telemedia Systems Limited, a United Kingdom corporation, on terms similar to terms we negotiate with unaffiliated third parties. For the three year period ended August 31, 1999, we had sales to Telemedia Systems of approximately $226,000 and purchases from Telemedia Systems of approximately $293,000. Dr. Hauser, Prof. Hopper and Mr. De Benedetti serve as directors of Telemedia Systems.

Principal Stockholders

The following table sets forth certain information regarding the beneficial ownership of our outstanding shares of common stock as of August 31, 1999 held by:

. each person or group known to us to be the beneficial owner of more than 5% of our outstanding common stock;

. each of our Named Executive Officers;

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

The number of shares of our common stock outstanding as of August 31, 1999 was calculated after giving effect to:

. the cancellation of all of the outstanding ordinary and preference shares of Virata Limited, the issuance of new ordinary shares of Virata Limited to Virata Corporation and the issuance of shares of common stock of Virata Corporation to the former shareholders of Virata Limited; and . a for 1 reverse stock split of our common stock.

These transactions will take place immediately prior to the consummation of this offering and will be effected pursuant to a share reconstruction under Section 425 of the United Kingdom Companies Act of 1985. Any securities that are convertible or exercisable into ordinary shares or preference shares of Virata Limited will become convertible or exercisable into shares of our common stock upon consummation of the share reconstruction.

Unless otherwise indicated, and subject to community property laws where applicable, each of the persons named in the table have sole voting and investment power with respect to all of the shares of common stock shown held by them.

	Shares Beneficially Owned Prior to Offering(1)		Shares Beneficially Owned After the Offering(1)	
Name	Number	Percent	Number	Percent
Gaz et Eaux(2)	11,547,032	12.7%		
New Enterprise Associates(3)	8,773,252	9.7		
Oak Investment Partners Limited(4)	12,485,519	13.8		
Olivetti Telemedia Investments B.V.(5)	8,867,517	9.8		
Oracle Corporation(6)	12,191,232	13.4		
3i plc(7)	6,028,987	6.7		
Charles Cotton(8)	1,082,813	1.2		
Michael Gulett(9)	--	0.0		
Andrew Vought(10)	743,437	0.8		
Martin Jackson(11)	537,083	0.6		
Thomas Cooper(12)	550,833	0.6		
Dr. Hermann Hauser(13)	1,632,096	1.8		
Marco De Benedetti	--	0.0		
Gary Bloom(14)	12,191,232	13.4		
Bandel Carano(15)	12,485,519	13.8		
Prof. Andrew Hopper	1,562,857	1.7		
Peter Morris(16)	8,773,252	9.7		
Patrick Sayer(17)	11,547,032	12.7		
Giuseppe Zocco(18)	2,885,974	3.1		
All of our directors and executive officers as a group (14 persons)	54,044,003	56.2		

(1) In calculating beneficial and percentage ownership, all shares of common stock that a named stockholder or specified group will have the right to acquire within 60 days of the date of this prospectus upon exercise of stock options are deemed to be outstanding for the purpose of computing the ownership of such stockholder, but are not deemed to be outstanding for the purpose of computing the percentage of common stock owned by any other stockholder. As of August 31, 1999, an aggregate of 90,642,635 shares of common stock were outstanding. (2) Gaz et Eaux's address is 3, rue Jacques Bingen, Paris, 75017, France. (3) New Enterprise Associates' address is 1119 St. Paul Street, Baltimore, MD 21202. (4) Oak Investment Partners Limited's address is 525 University Avenue, Suite 1300, Palo

Alto, CA 94301. (5) Olivetti Telemedia Investment's address is Herengracht, 548 Amsterdam, The Netherlands. (6) Oracles Corporation's address is 500 Oracle Parkway, M/S 1OP836, Redwood Shores, CA 94065. (7) 3i plc's address is 91 Waterloo Road, London SE1 8XP, United Kingdom. (8) Represents shares of our common stock underlying options that are vested or will vest within 60 days of August 31, 1999. (9) Represents shares of our common stock underlying options that are vested or will vest within 60 days of August 31, 1999. (10) Represents shares of our common stock underlying options that are vested or will vest within 60 days of August 31, 1999. (11) Represents shares of our common stock underlying options that are vested or will vest within 60 days of August 31, 1999. (12) Represents shares of our common stock underlying options that are vested or will vest within 60 days of August 31, 1999. (13) Represents shares of our common stock owned by Providence Investment Company Limited, which is wholly owned by the Providence Trust, of which Mr. Hauser may be a beneficiary. (14) Represents shares held by Oracle Corporation. Mr. Bloom was nominated to our board of directors by Oracle. Mr. Bloom disclaims all beneficial ownership of these shares. (15) Represents shares of our common stock beneficially owned by Oak Investment Partners, of which Mr. Carano is the General Partner. Mr. Carano disclaims all beneficial ownership of these shares. (16) Represents shares of our common stock beneficially owned by New Enterprise Associates, of which Mr. Morris is the General Partner. Mr. Morris disclaims all beneficial ownership of these shares. (17) Represents shares of our common stock beneficially owned by Gaz et Eaux, of which Mr. Sayer is the General Partner. Mr. Sayer disclaims all beneficial ownership of these shares. (18) Includes 2,506,513 shares issuable upon the exercise of a currently exercisable warrant. Represents shares of our common stock beneficially owned by Index Securities S.A., and its affiliates Societe Financiere Mirelis S.A. and The Index Special Situations Fund, of which Mr. Zocco is the General Partner. Mr. Zocco disclaims all beneficial ownership of these shares.

Description of Capital Stock

Upon completion of this offering, our authorized capital stock will consist of shares of common stock, $.00l par value, and shares of preferred stock, $.00l par value. The description of our capital stock below and certain provisions of our charter documents is not complete and is qualified by our certificate of incorporation and bylaws, which are included as exhibits to the registration statement that this prospectus is a part of, and by applicable provisions of the Delaware General Corporate Law. The information below gives effect to:

. the cancellation of all of the outstanding ordinary and preference shares of Virata Limited, the issuance of new ordinary shares of Virata Limited to Virata Corporation and the issuance of shares of common stock of Virata Corporation to the former shareholders of Virata Limited; and . a for 1 reverse stock split of our common stock.

These transactions will take place immediately prior to the consummation of this offering and, except for the reverse stock split, will be effected pursuant to a share reconstruction under Section 425 of the United Kingdom Companies Act of 1985. Any securities that are convertible or exercisable into

ordinary shares or preference shares of Virata Limited will become convertible or exercisable into shares of our common stock upon consummation of the share reconstruction.

Common Stock

As of August 31, 1999, there were 90,642,635 shares of common stock outstanding. Upon completion of this offering, there will be shares of our common stock outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options. Holders of the common stock are entitled to one vote per share on each matter submitted to a vote of our stockholders. Beneficial owners of common stock are entitled to receive ratably those dividends declared by our board of directors out of legally available funds. Upon our liquidation, dissolution or winding up, our common stockholders are entitled to share ratably in all of our assets which are legally available for distribution, after payment of all debts and other liabilities and the liquidation preference of any outstanding series of preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are, when issued and delivered, validly issued, fully-paid and non-assessable under the Delaware General Corporation Law.

Preferred Stock

Immediately prior to the consummation of this offering, all of the outstanding preference shares of Virata Limited will be cancelled and new shares of our common stock issued. The following illustrates the conversion of the preference shares of Virata Limited into shares of our common stock:

Series of Preference Shares	Number of Preference Shares Outstanding as of August 31, 1999	Conversion Rate	Number of Common Shares received Upon the Exchange of the Ordinary Shares
Series A Preference Shares	1,798,720	1 for 1	1,798,720
Series B Preference Shares	1,394,406	1 for 1	1,394,406
Series C Preference Shares	4,666,667	1 for 1.2(1)	5,600,000
Series D Preference Shares	43,571,387	1 for 1.57(2)	68,469,323

(1) As a consequence of the antidilution provisions of the Series C preference shares, the conversion rate of the Series C preference shares was increased from 1 for 1 to 1 for 1.2.

(2) Pursuant to their terms, the conversion rate of the Series D preference shares was increased from 1 for 1 to 1 for 1.57.

Immediately after this offering, there will be no shares of our preferred stock outstanding. However, our certificate of incorporation provides that our preferred stock be divisible into and issuable in one or more series. The rights and preferences of the different series may be established by our board of directors without further action by our stockholders. Our board of directors will be authorized with respect to each series to fix and determine, among other things:

. its dividend rate;

. its liquidation preference;

. whether or not the shares will be convertible into, or exchangeable for, any other securities; and . whether or not the shares will have voting rights, and, if so, determine the extent of the voting powers and the conditions under which the shares will vote as a separate class.

We believe that our board of directors' ability to issue preferred stock on such a wide variety of terms will enable the preferred stock to be used for important corporate purposes, such as financing acquisitions or raising additional capital. However, were it inclined to do so, our board of directors could issue all or part of the preferred stock with (among other things) substantial voting power or advantageous conversion rights. This stock could be issued to persons deemed by our board of directors likely to support our current management in a context for control of us, either as a precautionary measure or in response to a specific takeover threat. We have no current plans to issue preferred stock for any purpose.

Transfer Agent and Registrar We intend to select a transfer agent and registrar for our common stock prior to the closing of this offering.

Listing

We intend to apply to have our common stock approved for quotation on the Nasdaq National Market under symbol "VRTA" Registration Rights We have entered into a registration rights agreement dated as of , 1999 with holders of 75,463,729 shares of our common stock or warrants to purchase shares of our common stock (the "Registrable Securities"). The agreement grants certain registration rights with respect to these shares. The description of our registration rights agreement below is not complete and is qualified by our registration rights agreement that is included as an exhibit to the Registration Statement of which this prospectus is a part.

Requested Registration Any time after the earlier of (1) six months after the closing date of this offering and (2) , 2001, holders of at least 50% of the Registerable Securities may request that we file a registration statement. Such request must be with respect to at least 30% of the Registrable Securities held by such holders and such securities must have a minimum aggregate fair market value of at least $5.0 million. Upon such a request, we are required to use our reasonable efforts to cause such shares to be registered, subject to certain conditions and limitations. The holders of Registerable Securities are entitled to two such demand registrations.

In addition, if at any time we are entitled to file a registration statement on Form S-3 (or any successor form), holders of at least 20% of the Registerable Securities may request that we file a registration statement. Such request must be with respect to Registrable Securities having a minimum aggregate fair market value of $500,000. The holders of Registerable Securities are entitled to two such S-3 registrations in any twelve-month period.

If the registration is an underwritten public offering and the underwriters limit the number of securities that may be included in the registration, then the number of Registerable Securities that may be included in the registration and underwriting will be allocated among the holders of Registrable Securities requesting registration in proportion, as nearly as practicable, to the respective number Registrable Securities requested to be registered.

Company Registration

If we propose to register any of our or a holder's common stock under the Securities Act, holders of Registrable Securities have the opportunity to include their Registerable Securities in such registration. However, if the registration is an underwritten public offering and the underwriters limit the number of securities that may be included in the registration, then the number of Registerable Securities that may be included in the registration and underwriting may be cut back to zero. In such event, any Registrable Securities that are included in the registration and underwriting will be allocated among the holders of Registrable Securities based on the total number of our securities held by such holder.

Termination of Registration Rights The registration rights terminate as to Registrable Securities on the earlier of (1) the date of the sale of such Registrable Securities pursuant to a Registration Statement or Rule 144 under the Securities Act (or any similar provision then in force); (2) the date such Registrable Securities become capable of being distributed pursuant to Rule 144(k); or (3) the date such Registrable Securities become distributable without being subject to Rule 144 or registration. Notwithstanding the above, the registration rights agreement will terminate in 2006.

Certain Provisions in Our Certificate of Incorporation and Bylaws

Stockholder Meetings

Our bylaws provide that following this offering, any action required to be taken or that may be taken at any meeting of our stockholders may only be taken at a meeting of stockholders and may not be taken by the written consent of the stockholders. Special meetings of stockholders may only be called by our board of directors, the chairman of our board, the chief executive officer or our president, and only such business brought forth by or at the direction of our board of directors or the stockholders may be conducted. If a stockholder wishes to propose an item for consideration at any meeting, the stockholder must give written notice to us not less than 90 days before the meeting or, if later, the tenth day following the date of the first public announcement of the meeting, or such other date as is necessary to comply with applicable federal proxy solicitation rules and other regulations.

Board of Directors

Our bylaws provide that the number of directors may not be less than three nor more than fourteen, until changed by an amendment duly adopted by our board of directors or stockholders. Our bylaws further provide that the exact number of directors shall be fixed from time to time, within such range, by our board of directors. Currently, the number of directors is fixed at four. Our bylaws provide that our board of directors will be divided into three classes of directors, which serve for staggered three-year terms. Our bylaws do not provide for cumulation of stockholder votes in the election of directors. According to our bylaws, each director may be removed only for cause and only by the affirmative vote of at least 80% of the total number of the then outstanding shares of capital stock entitled to vote generally in the election of directors. Our bylaws provide that nominations for election of directors

may be made by our board of directors or any stockholder entitled to vote in the election of directors. If a stockholder wishes to nominate a director, the stockholder must give written notice to us not less than 90 days before the meeting or, if later, the tenth day following the date of the first public announcement of the meeting.

Amendment of Our Charter Documents Our certificate of incorporation may not be amended without the approval of the holders of a majority of our outstanding voting shares or the approval of at least a majority of our directors. Our bylaws contain provisions requiring the affirmative vote of at least 80% of the total number of the then outstanding shares of capital stock entitled to vote generally in the election of directors to amend, alter or repeal the provisions of our bylaws relating to the calling of special meetings of stockholders, advance notice of stockholder business or nominees, removal of directors, stockholder action without a meeting or amendments of our bylaws. These provisions of our charter documents may delay, defer or prevent a change in control without further action by our stockholders, may discourage bids for the common stock at a premium over the market price of the common stock and may adversely affect the market price of the common stock.

Effect of Delaware Anti-takeover Statute We are subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any "business combination" which includes a merger or sale of more than 10% of the corporation's assets, with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder, unless:

. before such date, our board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

. upon completion of the transaction which resulted in the stockholder 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, excluding those shares owned by persons who are directors and also officers; or . on or after such date, the business combination is approved by our board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

In general, Section 203 defines an "interested stockholder" as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation or any entity or person affiliated with or controlling or controlled by such entity or person.

Shares Eligible for Future Sale

Prior to this offering, there has been no market for our common stock. Future sales of substantial amounts of our common stock in the public market could adversely affect prevailing market prices.

Upon completion of this offering, there will be shares of our common stock outstanding, assuming no exercise of the underwriters' over- allotment option and no exercise of outstanding options. All of these shares will be freely tradable without restriction or further registration under the Securities Act, pursuant to an exemption provided by Section 3(a)(10) of the Securities Act, except for any such shares held by our affiliates. Shares held or purchased in this offering by one of our affiliates may not be sold in the public market without registration under the Securities Act or in compliance with an applicable exemption from registration as provided in Rule 144 or Rule 701 under the Securities Act, which rules are summarized below.

In general, under Rule 144 as currently in effect, a person who is one of our affiliates, is entitled to sell within any three-month period a number of shares that does not exceed the greater of:

. 1% of the shares of our common stock then outstanding, equaling approximately shares immediately after this offering, or . the average weekly trading volume of our common stock in the public market during the four calendar weeks immediately before such sale.

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

Under Rule 144(k), a person who has not been one of our "affiliates" at any time during the 90 days before a sale, and who has beneficially owned shares proposed to be sold for at least two years, is entitled to sell such shares without regard to the volume limitations, manner of sale provisions or notice requirements.

Subject to certain limitations on the aggregate offering price of a transaction and other conditions, Rule 701 under the Securities Act, as currently in effect, permits the resale of securities originally purchased from us by our employees, directors, officers, consultants or advisers prior to the closing of this offering in connection with a compensatory stock or option plan or written agreement, by persons who are not our "affiliates" subject only to the manner-of-sale provisions of Rule 144 and by our affiliates under Rule 144 without compliance with its minimum holding period requirement.

All of our officers, directors and stockholders have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of our shares or any securities convertible into or exchangeable or exercisable for any of our shares, or publicly disclose the intention to make any such offer, sale, pledge or disposal, for a period beginning on the date of this prospectus and continuing to the date which is 180 days after the date of this prospectus without the prior written consent of Credit Suisse First Boston, which consent may be withheld in its sole discretion. Credit Suisse First Boston may, in its sole discretion and any time without notice, release all or any portion of the securities subject to these lock-up agreements. In addition, we have agreed that, for a period of 180 days after the date of this prospectus, we will not, without the consent of Credit Suisse First Boston, issue, offer, sell or grant options to purchase or otherwise dispose of any equity securities or securities convertible into or exchangeable for equity securities except for (1) the issuance of shares of common stock offered hereby and (2) shares of common stock issued upon the exercise of outstanding options on or after the date of this prospectus. See "Underwriting."

There are no restrictions on resale with respect to any of our securities, other than restrictions imposed by lock-up agreements and applicable securities laws. All of the shares of our common stock outstanding prior to this offering will be available for sale in the public market immediately upon expiration of the 180 day lock-up period, subject to the volume limitations and other conditions of Rule 144 with respect to shares held by our affiliates. Sales of our common stock by these stockholders could have a material adverse effect on the trading price of our common stock.

Underwriting

Under the terms and subject to the conditions contained in an underwriting agreement dated , 1999, we have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston Corporation, Warburg Dillon Read LLC and Thomas Weisel Partners LLC are acting as representatives, the following respective numbers of shares of common stock:

Number of Underwriters Shares Credit Suisse First Boston Corporation..... Warburg Dillon Read LLC..... Thomas Weisel Partners LLC..... Total.....

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that, if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering of common stock may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to additional shares at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a concession of $ per share. The underwriters and selling group members may allow a discount of $ per share on sales to other broker/dealers. After the initial public offering, the public offering price and concession and discount to broker/dealers may be changed by the representatives.

The following table summarizes the compensation and estimated expenses we will pay:

	Total	Per Share	Without Over-allotment	With Over-allotment
Underwriting discounts and commissions paid by us.....	$	$		$
Expenses payable by us.....	$	$		$

The underwriters have informed us that they do not expect discretionary sales to exceed 5% of the shares of common stock being offered.

We, our executive officers and directors, and existing holders of our securities which holders own or have the right to acquire more than 1% of our outstanding shares of common stock, have agreed that we will not offer, sell, contract to sell, announce our intention to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any of our common stock without the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus, except in our case issuances pursuant to the exercise of employee stock options outstanding on the date hereof.

The underwriters have reserved for sale, at the initial public offering price, up to shares of common stock for employees, directors and other persons associated with us who have expressed an interest in purchasing common stock in the offering. The number of shares available for sale to the general public in this offering will be reduced to the extent these persons purchase the reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

We have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments which the underwriters may be required to make in that respect.

We intend to apply to list our shares of common stock on The Nasdaq Stock Market's National Market under the symbol "VRTA."

Prior to the offering, there has been no public market for the common stock. The initial public offering price for the common stock will be determined by negotiation between us and the representatives, and may not reflect the market price for the common stock following this offering. The principal factors considered in determining the initial public offering price of our common stock will be:

. the information in this prospectus and otherwise available to the representatives;

. market conditions for initial public offerings;

. the history of and prospects for the industry in which we will compete;

. the ability of our management;

. our prospects for future earnings, the present state of our development and our current financial condition;

. the recent market prices of, and the demand for, publicly traded common stock of generally comparable companies; and . the general condition of the securities markets at the time of this offering.

We cannot be sure that the initial public offering price will correspond to the price at which common stock will trade in the public market following this offering or that an active trading market for the common stock will develop and continue after this offering.

The representatives may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934, as amended.

. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position.

. Stabilizing transactions permit bids to purchase shares of the common stock so long as the stabilizing bids do not exceed a specified maximum.

. Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions.

. Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the common stock to be higher than it would otherwise be in the absence of these transactions. These transactions may be effected on The Nasdaq Stock Market's National Market or otherwise and, if commenced, may be discontinued at any time.

Each underwriter has represented and agreed that:

. it and each of its affiliates has not offered or sold, and will not offer or sell any common stock to persons in the United Kingdom, except to those persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

. it and each of its affiliates has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the common stock in, from or otherwise involving the United Kingdom; and . it and each of its affiliates has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the common stock to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the document may otherwise lawfully be issued or passed on.

Thomas Weisel Partners LLC, one of the representatives of the underwriters, was organized and registered as a broker-dealer in December 1998. Since December 1998, Thomas Weisel Partners has been named as a lead or co-manager on 61 filed public offerings or equity securities, of which 33 have been completed, and has acted as a syndicate member in an additional 32 public offerings of equity securities. Thomas Weisel Partners does not have any material relationship with us or any of our officers, directors or other controlling persons, except with respect to its contractual relationship with us pursuant to the underwriting agreement entered into in connection with this offering.

Notice to Canadian Residents

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are effected. Accordingly, any resale of the common stock in Canada must be made in accordance with applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with available statutory exemptions or pursuant to a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

Representations of Purchasers Each purchaser of common stock in Canada who receives a purchase confirmation will be deemed to represent to us and the dealer from whom such purchase confirmation is received that (1) the purchaser is entitled under applicable provincial securities laws to purchase such common stock without the benefit of a prospectus qualified under the securities laws, (2) where required by law, that the purchaser is purchasing as principal and not as agent, and (3) the purchaser has reviewed the text above under "Resale Restrictions."

Rights of Action (Ontario Purchasers) The securities being offered are those of a foreign issuer and Ontario purchasers will not receive the contractual right of action prescribed by Ontario securities law. As a result, Ontario purchasers must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of the U. S. federal securities.

Enforcement of Legal Rights All of the issuer's directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the issuer or such persons. All or a substantial portion of the assets of the issuer and such persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the issuer or these persons in Canada or to enforce a judgment obtained in Canadian courts against such issuer or persons outside of Canada.

Notice to British Columbia Residents A purchaser of common stock to whom the Securities Act (British Columbia) applies is advised that the purchaser is required to file with the British Columbia Securities Commission a report within ten days of the sale of any common stock acquired by such purchaser in this offering. This report must be in the form attached to British Columbia Securities Commission Blanket Order BOR #95/17, a copy of which may be obtained from us. Only one report must be filed in respect of common stock acquired on the same date and under the same prospectus exemption.

Taxation and Eligibility for Investment Canadian purchasers of common stock should consult with their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and with respect to the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

Legal Matters

Certain legal matters with respect to the legality of the issuance of the shares of common stock offered hereby will be passed upon for us by Gibson, Dunn & Crutcher LLP, San Francisco, California. Certain legal matters in connection with this offering will be passed upon for the underwriters by Brobeck, Phleger & Harrison LLP, San Francisco, California.

Experts

The consolidated financial statements of Virata Corporation as of March 31, 1998 and 1997 and for each of the three years in the period ended March 31, 1999 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The financial statements of RSA Communications, Inc. as of March 31, 1998 and 1997 and for the period from June 6, 1997 through March 31, 1998, the period from April 1, 1997 through June 5, 1997, and the year ended March 31, 1997 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

Additional Information

We filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered in this offering. This prospectus does not contain all of the information contained in the registration statement and the exhibits and schedule filed with the registration statement. For further information with respect to Virata and the common stock offered in this offering, we refer you to the registration statement and the exhibits and schedules filed as a part of the registration statement. Statements contained in this prospectus concerning the contents of any contract or any other document referred to are not necessarily complete. We refer you to the copy of such contract or document filed as an exhibit to the registration statement.

Our registration statement, including exhibits and schedules attached thereto, may be inspected without charge at the Securities and Exchange Commission's public reference facilities in Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Securities and Exchange Commission's regional offices located at the Northwest Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048. You may also obtain copies of all or any part of our registration statement from such offices after payment of fees prescribed by the Securities and Exchange Commission. The Securities and Exchange Commission maintains a worldwide website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission at http://www.sec.gov.

Virata Corporation

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Report of Independent Accountants

To the Board of Directors and Stockholders of Virata Corporation In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Virata Corporation and its subsidiaries (the "Company") at March 31, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP San Jose, California August 31, 1999

Virata Corporation

CONSOLIDATED BALANCE SHEET (in thousands, except share and per share data)

	March 31,			Pro Forma, Stockholders Equity at
	1998	1999	June 30, 1999 (unaudited)	June 30, 1999 (unaudited) (Note 12)

ASSETS Current Assets: Cash and cash equivalents..... $ 767 $ 8,616 $ 6,509 Short-term investments..... -- 1,001 -- Accounts receivables, net of allowance for doubtful accounts and returns of $1,567, $2,742 and $370, respectively..... 2,091 2,267 2,116 Inventories..... 434 264 381 Other current assets..... 1,352 1,232 1,879 Total current assets..... 4,644 13,380 10,885 Property and equipment, net..... 1,306 2,479 2,296 Intangible assets..... -- 3,324 3,130 Total assets..... $ 5,950 $ 19,183 $ 16,311 LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) Current Liabilities: Accounts payable..... $ 1,727 $ 2,112 $ 1,959 Accrued liabilities..... 2,641 1,887 2,408 Deferred revenue..... 317 489 433 Convertible loan from related parties..... 2,712 -- -- Short-term borrowings..... 417 -- -- Capital lease obligations, current..... 483 850 905 Total current liabilities..... 8,297 5,338 5,705 Capital lease obligations, long- term..... 738 1,130 995 9,035 6,468 6,700 Commitments (Note 8) Stockholders' Equity (Deficit) Convertible Preferred Stock, $0.02 par value; 36,100,000, 86,100,000 and 86,100,000 (unaudited) shares authorized at March 31, 1998 and 1999 and June 30, 1999, respectively; 22,319,943, 51,431,179 and 51,431,179 (unaudited) shares issued and outstanding at March 31, 1998 and 1999 and June 30, 1999, respectively (liquidation preference $57,929 (unaudited) at June 30, 1999).. 1,719 811 811 Common Stock, $0.02 par value; 45,000,000, 95,000,000 and 95,000,000 (unaudited) shares authorized at March 31, 1998 and 1999, and June 30, 1999, respectively; 11,752,415, 13,340,644, and 13,348,644 (unaudited) shares issued and outstanding at March 31, 1998 and 1999, and June 30, 1999, respectively..... 185 211 211 Additional paid-in capital..... 29,985 63,513 63,611 Accumulated other comprehensive income (loss)..... 56 308 (47) Unearned stock compensation..... (1,559) (1,500) (1,332) Accumulated deficit..... (33,471) (50,628) (53,643) Total stockholders' equity (deficit)..... (3,085) 12,715 9,611 Total liabilities and stockholders' equity (deficit)..... $ 5,950 $ 19,183 $ 16,311 The accompanying notes are an integral part of these consolidated financial statements.

Virata Corporation

CONSOLIDATED STATEMENT OF OPERATIONS (in thousands, except per share data)

	Year Ended March 31,			Three months Ended June 30,	
	1997	1998	1999	1998	1999
				(unaudited)	
Revenues:					
Semiconductors.....	$ --	$ 505	$ 2,784	$ 675	$ 1,419
License.....	971	1,570	1,628	994	274
Services and royalty.....	1,134	1,206	2,367	341	373
Systems.....	4,848	5,650	2,477	754	599
Total revenues.....	6,953	8,931	9,256	2,764	2,665
Cost of revenues:					

Semiconductors.....	--	325	2,421	419	811
License.....	--	--	--	--	--
Services and royalty.....	185	192	528	55	138
Systems.....	3,754	3,270	1,048	444	324
Total cost of revenues.....	3,939	3,787	3,997	918	1,273
Gross profit.....	3,014	5,144	5,259	1,846	1,392
Operating expenses:					
Research and development.....	3,518	3,987	8,323	1,202	2,549
Sales and marketing.....	4,753	4,076	2,917	532	923
General and administrative.....	3,410	4,917	5,567	759	903
Restructuring costs.....	--	1,871	--	--	--
Amortization of intangible assets.....	--	--	549	--	194
Amortization of stock compensation.....	--	399	1,394	306	266
Acquired in-process research and development.....	--	--	5,260	--	--
Total operating expenses.....	11,681	15,250	24,010	2,799	4,835
Loss from operations.....	(8,667)	(10,106)	(18,751)	(953)	(3,443)
Interest expense.....	(72)	(214)	(155)	(58)	(49)
Interest income and other income (expense), net.....	199	42	1,749	68	477
Net loss.....	$ (8,540)	$ (10,278)	$ (17,157)	$ (943)	$ (3,015)
Basic and diluted net loss per share.....	$ (0.80)	$ (0.90)	$ (1.33)	$ (0.08)	$ (0.23)
Weighted average common shares--basic and diluted.....	10,676	11,482	12,881	11,765	13,346
Unaudited pro forma basic and diluted net loss per share (Note 1).....			$ (0.21)		$ (0.04)
Pro forma weighted average shares--basic and diluted			80,900		84,646

The accompanying notes are an integral part of these consolidated financial statements.

Virata Corporation

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT) (in thousands)

	Convertible Preferred Stock		Common Stock		Additional Paid-in	Other Comprehensive	Unearned Stock	Accumulated	Total Stockholders' Equity	Total Comprehensive
	Shares	Amount	Number	Amount	Capital	Income (Loss)	Compensation	Deficit	(Deficit)	Income
Balance, March 31, 1996.....	12,940	$ 1,564	10,600	$ 165	$ 14,437	$ 338	$ --	$ (14,653)	$ 1,851	$ --
Issuance of Series B convertible preferred stock.....	2,713	45	--	--	3,080	--	--	--	3,125	--
Issuance of Series C convertible preferred stock.....	6,667	110	--	--	10,453	--	--	--	10,563	--
Issuance of common stock for cash.....	--	--	337	6	19	--	--	--	25	--
Net loss.....	--	--	--	--	--	--	--	(8,540)	(8,540)	(8,540)
Currency translation adjustment.....	--	--	--	--	--	(172)	--	--	(172)	(172)
Balance, March 31, 1997.....										

22,320 1,719 10,937 171 27,989 166 -- (23,193) 6,852 (8,712) Issuance of common stock for cash..... -- -- 815 14 38 -- -- -- 52 -- Unearned stock compensation..... -- -- -- -- 1,958 -- (1,958) -- -- -- Amortization of unearned stock compensation..... -- -- -- -- -- -- 399 -- 399 -- Net loss..... -- -- -- -- -- -- -- (10,278) (10,278) (10,278) Currency translation adjustment..... -- -- -- -- -- (110) -- -- (110) (110) Balance, March 31, 1998..... 22,320 1,719 11,752 185 29,985 56 (1,559) (33,471) (3,085) (10,388) Change in the par value of Series A convertible preferred stock..... -- (1,366) -- -- 1,366 -- -- -- -- -- Issuance of Series D convertible preferred stock and warrants..... 25,417 410 -- -- 24,672 -- -- -- 25,082 -- Issuance of Series D convertible preferred stock, common stock and options for acquisition..... 606 10 1,540 25 3,549 -- -- -- 3,584 -- Issuance of Series D convertible preferred stock upon conversion of debt..... 2,403 38 -- -- 2,576 -- -- -- 2,614 -- Issuance of Series D convertible preferred stock for cash..... 22 -- -- -- 24 -- -- -- 24 -- Issuance of common stock for cash..... -- -- 49 1 6 -- -- -- 7 -- Exchange Series B and Series C convertible preferred stock to Series D convertible preferred stock..... 663 -- -- -- -- -- -- -- -- Unearned stock compensation..... -- -- -- -- 1,335 -- (1,335) -- -- -- Amortization of unearned stock compensation..... -- -- -- -- -- -- 1,394 -- 1,394 -- Net loss..... -- -- -- -- -- -- -- (17,157) (17,157) (17,157) Unrealized gain on investments... -- -- -- -- -- 1 -- -- 1 1 Currency translation adjustment..... -- -- -- -- -- 251 -- -- 251 251 Balance, March 31, 1999..... 51,431 811 13,341 211 63,513 308 (1,500) (50,628) 12,715 (16,905) Issuance of common stock for cash (unaudited)..... -- -- 8 -- -- -- -- -- -- -- Unearned stock compensation (unaudited)..... -- -- -- -- 98 -- (98) -- -- -- Amortization of unearned stock compensation (unaudited)..... -- -- -- -- -- -- 266 -- 266 -- Net loss (unaudited)..... -- -- -- -- -- -- -- (3,015) (3,015) (3,015) Currency translation adjustment (unaudited)..... -- -- -- -- -- -- (355) -- -- (355) (355) Balance, June 30, 1999 (unaudited)..... 51,431 $ 811 13,349 $ 211 $ 63,611 $ (47) $ (1,332) $ (53,643) $ 9,611 $ (3,370) The accompanying notes are an integral part of these consolidated financial statements.

Virata Corporation

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands)

Year Ended March 31,			Three Months Ended June 30,	
1997	1998	1999	1998	1999
			(unaudited)	

Cash flows from operating activities: Net loss..... $ (8,540) $ (10,278) $ (17,157) $ (943) $ (3,015) Adjustments to reconcile net loss to net cash used in operating activities: Provision for doubtful accounts and returns.... 111 1,075 1,458 26 189 Acquired in-process research and development..... -- -- 5,260 -- -- Depreciation and amortization..... 1,085 1,149 1,677 225 643 Amortization of stock compensation..... -- 399 1,394 306 266 Changes in current assets and liabilities: Accounts receivable..... (797) (1,665) (708) (420) (26) Inventories..... (129) 387 176 311 (108) Other current assets.... (615) (479) 133 579 (624) Accounts payable..... 1,027 (313) (1,187) (668) (187) Accrued liabilities..... 818 95 (772) (132) 485 Deferred revenue..... -- 317 167 (43) (30) Net cash used in operating activities.. (7,040) (9,313) (9,559) (759) (2,407) Cash flows from investing activities: Sale of short-term investments..... -- -- -- -- 1,001 Purchase of short-term investment..... -- -- (1,000)

-- -- Purchase of property and equipment, net..... (1,376) (193) (2,088) (687) (53) Cash paid in connection with acquisition, net of cash acquired..... -- -- (5,149) -- -- Net cash (used in) provided by investing activities..... (1,376) (193) (8,237) (687) 948 Cash flows from financing activities: Proceeds from issuance of convertible preferred stock, net of issuance costs..... 13,688 -- 25,106 24,957 -- Proceeds from issuance of common stock..... 25 52 7 3 -- Proceeds from capital leases..... 981 372 1,116 673 31 Repayments of capital lease obligations..... (122) (282) (318) (144) (81) Proceeds from convertible loan..... -- 2,739 -- -- -- Proceeds from (repayment of) bank borrowings..... -- 417 (417) (395) -- Net cash provided by (used in) financing activities..... 14,572 3,298 25,494 25,094 (50) Effect of exchange rate changes on cash..... (183) (314) 151 78 (598) Net increase (decrease) in cash and cash equivalents..... 5,973 (6,522) 7,849 23,726 (2,107) Cash and cash equivalents at beginning of period.... 1,316 7,289 767 767 8,616 Cash and cash equivalents at end of period..... $ 7,289 $ 767 $ 8,616 $ 24,493 $ 6,509 The accompanying notes are an integral part of these consolidated financial statements.

Virata Corporation Notes to Consolidated Financial Statements

Note 1--The Company and Summary of Significant Accounting Policies:

The Company

Virata Corporation (the "Company") was formed in 1993 as Advanced Telecommunications Modules Limited, a corporation organized in the United Kingdom, as a spin-off from Olivetti Research Laboratories. In February 1998, the Company changed its name to Virata Limited. In July 1998, the Company completed its acquisition of RSA Communications, Inc. ("RSA"), a corporation organized in North Carolina (see Note 4). RSA was subsequently renamed to Virata Raleigh Corporation.

The Company is a provider of solutions that integrate communication processors with a suite of software for the digital subscriber line equipment market.

Principles of consolidation and basis of presentation The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Interim financial information (unaudited) The accompanying interim consolidated financial statements as of June 30, 1999 and for the three months ended June 30, 1998 and 1999 are unaudited but have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's financial condition at June 30, 1999 and the results of operations and cash flows for the three months ended June 30, 1998 and 1999. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenues from the sale of both semiconductors and systems are recognized upon shipment to customers. Allowances are provided for estimated returns at the time of shipment. The Company recognizes software license revenue under Statement of Position ("SOP") 97-2, Software Revenue Recognition, and SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions. When contracts contain multiple elements and vendor-specific objective evidence exists for all undelivered elements, the Company accounts for the delivered elements in accordance with the "Residual Method" prescribed by SOP 98-9. Software licenses are generally recognized as revenue upon shipment of the software product. In the event the Company grants customers the right to specified upgrades, license revenue is deferred until delivery of the specific upgrade. If vendor-specific objective evidence of fair value does not exist, then the entire license fee is deferred until the delivery of the specified upgrade. The Company recognizes revenues from maintenance and support services provided to licensees ratably over the term of the agreement, generally one year, and recognizes revenues from design services provided to customers as the services are performed.

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Cash equivalents The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At March 31, 1998 and 1999, $717,000 and $7,142,000, respectively, of money market funds and certificate of deposits, the fair value of which approximates costs, are included in cash and cash equivalents. The Company deposits cash and cash equivalents with high credit quality financial institutions.

Investments

Investments consist of high quality debt securities with original maturity dates greater than ninety days. In accordance with Statement of Financial Accounting Standard ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company's investments are classified as available-for-sale and, at the balance sheet date, are reported at fair value, with the unrealized gains and losses, net of related taxes, reported as a component of Other Comprehensive Income (Loss). The cost of these investments at March 31, 1999 was $1,000,000. Gains and losses on the sale of available- for-sale securities are determined using the specific-identification method.

Fair value of financial instruments Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other liabilities approximate fair value due to their short maturities. Based upon borrowing rates currently available to the Company for leases with similar terms, the carrying value of capital lease obligations approximate fair value.

Segment information

Effective April 1, 1998, the Company adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company identifies its operating segments based on business activities, management responsibility and geographical location. During each of the three years in the period ended March 31, 1999, the Company operated in one operating segment, primarily in the United States and Europe.

Concentration of credit risk Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, and accounts receivable. The Company's accounts receivable are derived from revenues earned primarily from customers located in the U.S. and Europe. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The Company maintains an allowance for doubtful accounts receivable based upon the expected collectibility of accounts receivable.

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) The Company currently has the following concentrations of revenues and trade accounts receivables:

	Year Ended March 31,			Three Months Ended June 30,
	1997	1998	1999	1999 (unaudited)
Revenues				
Customer A	--	10%	16%	40%
Customer B	21%	17%	22%	17%
Customer C	--	10%	3%	--
Customer D	--	--	--	10%

Revenues from customers located outside the United States were 47% in 1997, 44% in 1998 and 40% in 1999, respectively. The Company has $974,000 and $1,800,000 invested in identifiable tangible assets in Europe as of March 31, 1998 and 1999. The remaining identifiable tangible assets are located in the United States.

	March 31,		June 30,
	1998	1999	1999 (unaudited)
Accounts Receivable			
Customer A	23%	54%	50%
Customer B	11%	11%	9%

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Customer C.............................................  28%   --        --
Customer E.............................................  18%   --        --
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Inventories

Inventories include raw materials and finished goods and are stated at the lower of cost or market, cost being determined using the first-in, first-out method.

Property and equipment Property and equipment are recorded at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets, as follows:

Computer and network equipment and software..... 2-3 years Furniture and office equipment..... 5 years Research and development equipment..... 2-3 years Leasehold improvements are amortized on a straight-line basis over the life of the lease, or the useful life of the assets, whichever is shorter.

Intangible assets

Intangible assets consist of goodwill, which is being amortized on a straight line basis over five years.

The Company investigates potential impairments of its goodwill on an exception basis when evidence exists that events or changes in circumstances may have made recovery of the carrying value unlikely. An impairment loss is recognized when the expected undiscounted future net cash flows is less than the carrying amount of the asset. No such losses have been identified to date.

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Recent accounting pronouncement In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivatives and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In July 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 137 deferred the effective date of SFAS No. 133 until fiscal years beginning after June 15, 2000. The Company will adopt SFAS No. 133 during its year ending March 31, 2002. To date, the Company has not engaged in derivative or hedging activities. The Company is unable to predict the impact of adopting SFAS No. 133 if it were to engage in derivative and hedging activities in the future.

Net loss per share

The Company computes net loss per share in accordance with SFAS No. 128, "Earnings per Share" and SEC Staff Accounting Bulletin ("SAB") No. 98. Under the provisions of SFAS No. 128 and SAB No. 98, basic and diluted net loss per share is computed by dividing the net loss available to holders of common stock for the period by the weighted average number of shares of common stock outstanding during the period. The calculation of diluted net loss per share excludes potential shares of common

stock if their effect is anti-dilutive. Potential common stock consists of shares of common stock issuable upon the exercise of stock options and warrants and shares issuable upon conversion of the Series A, Series B, Series C and Series D convertible preferred stock.

The following tables sets forth potential shares of common stock as converted that are not included in the diluted net loss per share calculation above because to do so would be anti-dilutive for the period indicated (in thousands):

	March 31,			June 30,	
	1997	1998	1999	1998	1999
				(unaudited)	

Series A convertible preferred stock..... 1,799 1,799 1,799 1,799 1,799 Series B convertible preferred stock..... 13,855 13,855 1,394 1,394 1,394 Series C convertible preferred stock..... 8,000 8,000 5,600 5,600 5,600 Series D convertible preferred stock..... -- -- 68,469 67,516 68,469 Convertible preferred stock warrants..... 74 139 2,892 2,646 2,903 Common stock warrants..... -- 75 75 75 75 Common stock options..... 2,777 4,796 14,516 7,855 19,465 26,505 28,664 94,745 86,885 99,705 Pro forma net loss per share (unaudited) Pro forma net loss per share for the year ended March 31, 1999 is computed using the weighted average number of shares of common stock outstanding, including the pro forma effects of the automatic conversion of the Company's Series A, B, C and D convertible preferred stock and preferred stock warrants into shares of the Company's common stock effective upon the closing of the Company's initial public offering as if such conversion occurred on April 1, 1998, or at the date of original issuance, if later. The resulting pro forma adjustment includes an increase in the weighted average shares used to compute basic net loss per share for the year ended March 31, 1999. The calculation of diluted net loss per share excludes potential shares of common stock as their effect would be anti-dilutive.

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Stock compensation The Company accounts for stock compensation arrangements in accordance with provision of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under APB No. 25, unearned stock compensation is based on the difference, if any, on the date of the grant, between the fair value of the Company's common stock and the exercise price. Unearned stock compensation is amortized and expensed in accordance with FASB Interpretation No. 28. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No.123 and Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."

Comprehensive income

Comprehensive income consists of foreign currency translation gains and losses and other unrealized gains and losses arising from the valuation of short-term investments and is presented in the Consolidated Statement of Stockholders' Equity (Deficit). Balance sheet accounts of foreign operations

are translated using the year-end exchange rate, and income statement accounts are translated on a monthly basis using the average exchange rate for the period. Unrealized gains and losses on translation adjustments are recorded in stockholders' equity as other comprehensive income. The currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries. Foreign currency transaction gains and losses are included as a component of other income and expense and as of March 31, 1997, 1998 and 1999 the Company recognized (losses) gains of $(198,000), $(80,000) and $432,000, respectively.

Note 2--Supplemental Cash Flow Information (in thousands):

Year ended March 31,			Three Months Ended June 30,	
1997	1998	1999	1998	1999
			(Unaudited)	

Supplemental cash flow information: Cash paid for income taxes..... $ 800 $ 800 $ 800 Cash paid for interest..... $ 55 $ 197 $ 180 Supplemental noncash investing and financing activity: Issuance of preferred stock for convertible loan..... $ -- $ -- $2,712 $ -- $ -- Issuance of stock and options in connection with acquisition..... $ -- $ -- $2,921 $ -- $ -- Unearned compensation in connection with issuance of stock options..... $ -- $1,958 $1,335 $ -- $ 98 Issuance of warrants in connection with financing..... $ -- $ -- $ 949 $ -- $ --

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Note 3--Balance Sheet Components (in thousands):

	March 31		June 30,
	1998	1999	1999
			(unaudited)
Inventories:			
Finished goods	$ 394	$ 26	$376
Raw materials	40	238	5
	$ 434	$ 264	$381
Other current assets:			
Prepaid expenses	$ 293	$ 564	
Deposits	346	113	
Other current assets	713	555	
	$ 1,352	$ 1,232	
Property and equipment, net:			
Office equipment	$ 2,156	$ 2,856	
Furniture and fixtures	206	247	
Leasehold improvements	136	429	
Research and development equipment	1,881	3,039	
	4,379	6,571	
Less: Accumulated depreciation and amortization	(3,073)	(4,092)	
	$ 1,306	$ 2,479	

Property and equipment includes $2,200,000 and $3,485,000 of computer equipment and internal-use software under capital leases at March 31, 1998, and 1999, respectively. Accumulated amortization of assets under capital leases totaled $1,319,000 and $2,015,000 at March 31, 1998 and 1999, respectively.

March 31 1998 1999

Intangible assets: Goodwill..... $ -- $3,873 Less: Accumulated amortization..... -- (549) $ -- $3,324 Accrued liabilities: Compensation accrual..... $ 821 $ 869 Royalty obligation ..... 532 -- Contract accrual..... 422 -- Other..... 866 1,018 $2,641 $1,887 In fiscal year 1998, the Company recorded an accrual for $422,000 related to an obligation of the Company to reimburse suppliers for cancelled purchase orders related to systems products.

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) NOTE 4--Acquisition of RSA:

The Company completed its acquisition of RSA on July 17, 1998. RSA was privately-held and based in Raleigh, North Carolina, specializing in analog modem software development. The Company's acquisition of RSA was accounted for as a purchase business combination.

The Company's allocation of RSA's aggregate purchase price to the tangible and identifiable intangible assets acquired in connection with this acquisition were based on fair values as determined by independent appraisers. The allocation is summarized below (in thousands):

In-process research and development..... $5,260 Goodwill..... 3,873 Net assets..... 142 Total purchase price..... $9,275 The total purchase price of $9,275,000 million consisted of 1,540,000 shares of the Company's Common Stock valued at $1,417,000 million, 606,500 Series D Preferred Convertible Stock valued at $668,000, 1,993,000 stock options valued at $1,505,000 million, cash of $5,332,000 million and acquisition related expenses of approximately $353,000 consisting primarily of legal and other professional fees. The Company valued the options using the Black-Scholes option pricing model, applying expected life of four years, a weighted average risk-free rate of 5.47%, an expected dividend yield of zero percent, a volatility of 70% and a deemed fair value of common stock of $0.92.

The valuation of the acquired in-process research and development of $5,260,000 was based on the result of an independent appraisal which was determined using the income-based approach for modem chips and replacement cost method for software algorithms. The acquired in-process technology was not considered to have reached technological feasibility and had no alternative future use. Accordingly, the amount was charged to operations upon acquisition.

The income method of valuation for the modem chips was determined using a modified version of the relief from royalty avoided by the Company upon the purchase of RSA. Royalty rates were estimated based on past contracts and unit sales were estimated based on the size of the total market from industry analysis. The avoided royalty payments by the Company were then calculated for the life of the product. The net cash flow was discounted back to the present value at a risk-adjusted discount rate of 40%.

The algorithm which requires a special skill set for its development was valued using the replacement cost method which considered cost incurred through the valuation date.

The goodwill is being amortized on a straight line basis over the estimated period of benefit of five years.

The following unaudited pro forma financial information presents the consolidated results of the Company as if the acquisition had occurred at the beginning of each period, and includes adjustments for amortization of goodwill. This pro forma financial information is not intended to be indicative of future results. Unaudited pro forma consolidated results of operations are as follows (in thousands, except per share data):

Year Ended March 31, 1998 1999 (unaudited) Revenues..... $ 13,251 $ 10,075 Net loss..... (11,931) (19,224) Basic and diluted net loss per share..... (0.92) (1.44)

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Note 5--Restructuring:

In September 1997, the Company implemented a new business strategy focusing on semiconductors and reduced the resources allocated to its systems line of business. A restructuring plan was implemented in the second half of the fiscal year ended March 31, 1998, which resulted in one time charges of $1,871,000 in the fiscal year ended March 31, 1998. Approximately, $900,000 of the restructuring charge represents employee costs, $900,000 represent asset write downs and $71,000 related to other restructuring costs. As of March 31, 1998 the Company had reduced the operations of the systems business including reducing headcount from the prior years level by approximately 33%. The Company continues to sell its systems products to one principal customer and systems revenues for the three months ended June 30, 1999 were $599,000.

The following table lists the components of the restructuring accrual for the year ended March 31, 1999 (in thousands).

	Employee Costs	Asset Write down	Other	Total
Reserve provided as at April 1, 1997.....	$ 900	$ 900	$ 71	$1,871
Reserve utilized.....	(783)	(900)	(25)	(1,708)
Balance at March 31, 1998.....	117	--	46	163
Reserve utilized.....	(117)	--	(46)	(163)
Balance at March 31, 1999.....	$ --	$ --	$--	$ --

Note 6--Income Taxes:

No income tax provision was recorded for the three years ending March 31, 1999 and the three months ended June 30, 1998 and 1999 because the Company incurred net losses in such periods.

Deferred tax assets and liabilities consist of the following:

March 31, 1999 1998

Deferred tax assets:		
Net operating loss carryforwards	$12,647	$9,011
Temporary differences	1,764	751
Other	67	--
	14,478	9,762
Valuation allowance	(14,478)	(9,762)
	$--	$--

The deferred tax asset has been fully reserved due to the uncertainty of the Company's ability to realize this asset in the future.

At March 31, 1999, the Company has approximately $14.2 million, $11.7 million and $23.2 million in federal, state and foreign net operating loss carryforwards, respectively, to reduce future taxable income. The net operating loss carryforwards expire between 2004 and 2019 for both federal and state purposes, if not utilized.

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Note 7--Borrowings:

A convertible loan in the amount of $2,712,000 was converted to 2,402,710 shares of Series D preferred stock valued at $1.10 per share on June 4, 1998. The value of the stock was determined by the Series D convertible preferred stock offering price of $1.10, also on June 4, 1998. The loan was drawn in December 1997 bearing interest at the rate of 10% per annum and was due to related parties.

Short term borrowings represent the Company's overdraft facility which is collaterized by the assets of the Company.

In connection with a borrowing agreement, the Company issued a warrant to purchase 35,294 shares of Series D convertible preferred stock at an exercise price of $1.70 per share. This warrant is outstanding at March 31, 1999 and expires December 12, 2002. The Company valued the warrant using the Black- Scholes option pricing model, applying an expected life of 5 years, a weighted average risk free rate of 5.77%, an expected dividend yield of zero percent, a volatility of 70% and a deemed fair value of common stock of $0.95. The Company determined that the fair value of the warrant was not significant at the date of grant.

Note 8--Commitments:

Leases

The Company leases office space and equipment under noncancelable operating and capital leases with various expiration dates through March 2005. The Company also subleased to third parties a certain property under a noncancelable operating lease which expired in July 1999. Net rent expense for the three years ended March 31, 1999 was $281,000, $372,000 and $536,000, respectively. The terms of the facility lease provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

Future minimum lease payments under noncancelable operating and capital leases are as follows (in thousands):

Year Ended March 31,	Capital Leases	Operating Leases	Sublease Income
2000	$ 987	$ 708	$ 43
2001	638	718	--
2002	455	555	--
2003	111	438	--
2004	--	327	--
2005	--	55	--
Total minimum lease payments and sublease income	2,191	$2,801	$ 43
Less: Amount representing interest	(211)		
Present value of capital lease obligations	1,980		
Less: Current portion	(850)		
Long-term portion of capital lease obligations	$1,130		

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Note 9--Convertible Preferred Stock:

Convertible Preferred Stock at March 31, 1999 consists of the following:

Series	Shares Authorized	Shares Issued and Outstanding March 31, 1998	1999	Liquidation Amount
A	3,100	1,798,720	1,798,720	$ 1,438,976
B	25,000	13,854,556	1,394,406	1,561,735
C	8,000	6,666,667	4,666,667	7,000,000
D	50,000	--	43,571,386	47,928,525
	86,100	22,319,943	51,431,179	$57,929,236

On June 4, 1998, existing investors were given the opportunity to convert their shares of Series A, B and C convertible preferred stock into Series D convertible preferred stock and new investors were given the opportunity to purchase Series D convertible preferred stock. The Company issued 25,417,296 shares of Series D convertible preferred stock for $1.10 per share resulting in net proceeds after issuance costs of $25,082,000. The Company also issued 15,123,062 shares of Series D convertible preferred stock as a result of existing stockholders opting to convert their shares of Series

B and C convertible preferred stock into Series D convertible preferred stock. In June 1999, the Series D convertible preferred stock conversion price was reduced to $0.70 from $1.10 based on the Company's revenues for the year ended March 31, 1999.

In connection with investment banking services provided during the June 1998 offering, the Company issued a warrant to purchase an aggregate of 1,592,054 shares of Series D convertible preferred stock at an exercise price of $1.10 per share. The warrant may be exercised at any time within five years after issuance. The Company valued the warrant using the Black-Scholes option pricing model, applying expected life of five years, a weighted average risk-free rate of 5.52%, an expected dividend yield of zero percent, a volatility of 70% and a deemed fair value of common stock of $0.99. The fair market value of the warrant of $949,000 has been netted against the proceeds from the offering.

The holders of convertible preferred stock have various rights and preferences as follows:

Voting

Each share of Series A, B, C and D convertible preferred stock have voting rights equal to an equivalent number of shares of common stock into which it is convertible and votes together as one class with the common stock.

As long as at least 1,000,000 shares of Series B, C and D convertible preferred stock remain outstanding, the Company must obtain approval from 66 2/3% of the holders of convertible preferred stock in order to alter the articles of incorporation as related to convertible preferred stock, or change the authorized number of shares of convertible preferred stock. The Company must obtain approval from 66 2/3% of the owners of issued shares of the Company to create a new class of stock or effect a merger, consolidation or sale of assets where the existing shareholders retain less than 50% of the voting stock of the surviving entity.

Dividends

Holders of Series A, B C and D convertible preferred stock are entitled to participate in dividends on a pro rata basis irrespective of the class of stock. No dividends on convertible preferred stock or common stock have been declared by the Board from inception through June 30, 1999.

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Liquidation In the event of any liquidation, dissolution or winding up of the Company, including a merger, acquisition or sale of assets where the beneficial owners of the Company's common stock and convertible preferred stock own less than 51% of the resulting voting power of the surviving entity, the holders of Series A, B, C and D convertible preferred stock are entitled to receive an amount of $0.80, $1.12, $1.50 and $1.10 per share, respectively, plus any declared but unpaid dividends prior to and in preference to any distribution to the holders of common stock. The remaining assets, if any, shall be distributed pro-rata amongst all stockholders on an as converted basis. Should the Company's legally available assets be

insufficient to satisfy the liquidation preferences, the funds will be distributed first to the Series D convertible preferred stockholders, plus any unpaid dividends and the remainder to the other convertible preferred stockholders.

Conversion

Each share of Series A, B, C and D convertible preferred stock is convertible, at the option of the holder, according to a conversion ratio, subject to adjustment for dilution. Each share of Series A, B, C and D convertible preferred stock automatically converts into the number of shares of common stock into which such shares are convertible at the then effective conversion ratio upon the closing of a public offering of Common Stock at a per share price of at least $3.00 per share with gross proceeds of at least $7,500,000 or the Company completes a public offering in the United Kingdom of common stock at a per share price of at least 50 pence per share. Shares of Series B, C and D convertible preferred stock also convert automatically upon the consent of the respective holders of the majority of convertible preferred stock.

At March 31, 1999, the Company reserved 1,799,000, 1,394,000, 5,600,000 and 68,469,000 shares of common stock for the conversion of Series A, B, C and D convertible preferred stock, respectively.

Warrants for Convertible Preferred Stock In connection with a lease agreement, the Company issued warrants to purchase 69,705 shares of Series C and 109,091 shares of Series D convertible preferred stock for $1.10 and $1.50 per share, respectively, in the period September 1996 to September 1998. Such warrants are outstanding at March 31, 1999 and expire in the period September 2001 to September 2008. The Company valued the warrant using the Black-Scholes option pricing model, applying expected life of five years, a weighted average risk-free rate of 6.6% and 4.81%, an expected dividend yield of zero percent, a volatility of 70% and a deemed fair value of common stock of $0.74 and $0.85, respectively. The Company determined that the fair value of the warrant was not significant at the date of grant.

Note 10--Stock Option Plans:

In April 1998, the Company adopted the 1998 Stock Option Plan (the "Plan"). The Plan provides for the granting of stock options to employees and consultants of the Company. Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may be granted only to Company employees (including officers and directors who are also employees). Nonqualified stock options ("NSO") may be granted to Company employees and consultants. The Company has reserved 26,989,333 shares of common stock for issuance under the Plan.

Options under the Plan may be granted for periods of up to seven years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by the Board of Directors, provided, however, that (i) the exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively, and (ii) the exercise price of an ISO and NSO granted to a 10% shareholder shall not be less than 110% of the estimated fair value

of the shares on the date of grant, respectively. To date, options granted generally vest over four years. Options expire at the earlier of 90 days after the employee ceases employment or seven years after the effective date of the grant of the options.

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) During the period from April 1, 1996 through March 31, 1999, the Company recorded $3,391,000 of deferred stock compensation for the excess of the deemed fair market value over the exercise price at the date of grant related to options granted in 1998 and 1999. The compensation expense is being recognized over the option vesting period of four years. The Company amortized $399,000, $1,394,000 and $266,000 (unaudited) for the years ended March 31, 1998 and 1999, and the three months ended June 30, 1999, respectively.

The following table summarizes activity under the Company's Plan from March 31, 1996 through June 30, 1999:

		Outstanding Options	
	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price
Balance, March 31, 1996	2,898,208	2,101,792	$0.07
Shares reserved for grant	--	--	--
Options granted	(2,136,000)	2,136,000	0.20
Options exercised	--	(337,254)	0.07
Options canceled	1,123,731	(1,123,731)	0.22
Balance, March 31, 1997	1,885,939	2,776,807	0.11
Shares reserved for grant	2,012,143	--	--
Options granted	(6,082,500)	6,082,500	0.24
Options exercised	--	(815,161)	0.06
Options canceled	3,248,208	(3,248,208)	0.24
Balance, March 31, 1998	1,063,790	4,795,938	0.20
Shares reserved for grant	10,038,221	--	--
Options granted	(10,380,194)	10,380,194	0.61
Options exercised	--	(48,229)	0.10
Options canceled	612,208	(612,208)	0.70
Balance, March 31, 1999	1,334,025	14,515,695	0.47
Shares reserved for grant	9,938,969	--	--
Options granted (unaudited)	(4,971,625)	4,971,625	1.26
Options exercised (unaudited)	--	(8,000)	0.06
Options canceled (unaudited)	14,500	(14,500)	1.30
Balance, June 30, 1999 (unaudited)	6,315,869	19,464,820	0.67

	Options Outstanding at March 31, 1999			Options Exercisable at March 31, 1999	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
$0.02 - $0.08	730,000	2.5	$0.05	721,111	$0.05
$0.16	869,792	3.9	0.16	633,822	0.16
$0.24 -					

$0.25	5,065,694	5.4	0.24	3,141,139	0.24
$0.70	7,850,209	6.3	0.70		0.70
	14,515,695			4,496,072	

The total number of options exercisable at March 31, 1997 and 1998 was 612,589 and 1,361,552, respectively.

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Fair value disclosures If compensation cost for the Company's stock-based compensation plan been determined based on the fair value at the grant dates for the awards under a method prescribed by SFAS No. 123, the Company's net loss would have been increased to the pro forma amounts indicated below (in thousands, except per share data):

Year Ended March 31, 1997 1998 1999 Net loss: As reported..... $(8,540) $(10,278) $(17,157) Pro forma..... (8,777) (10,974) (19,707) Basic and diluted net loss per share: As reported..... $ (0.80) $ (0.90) $ (1.33) Pro forma..... (0.82) (.96) (1.53) The Company calculated the fair value of each option grant on the date of grant using the Black-Scholes pricing method with the following assumptions: expected dividend yield of zero percent; weighted average expected option term of four years; risk free interest rates of 6.1% to 6.7%, 5.6% to 6.6% and 4.5% to 5.8% and a volatility of 70% for the three years ended March 31, 1999. The weighted average fair value of options granted during 1997, 1998 and 1999 was $0.72, $0.93 and $0.88, respectively.

Warrants for Common Stock In connection with an employee agreement, the Company issued a warrant to purchase 75,000 shares of Common Stock for $0.08 per share in July 1997. This warrant is outstanding at March 31, 1999 and expires in July 2007. The Company valued the warrant using the Black-Scholes option pricing model, applying expected life of five years, a weighted average risk-free rate of 6.62%, an expected dividend yield of zero percent, a volatility of 70% and a deemed fair value of common stock of $0.89. Using the Black-Scholes pricing model, the Company determined that the fair value of the warrant was not significant at the date of grant.

Note 11--Related Party Transactions:

In fiscal year 1999, related parties converted $1,454,000 of a 10% convertible loan into 1,279,205 shares of Series D convertible preferred stock.

The Company had sales of $921,000, $82,000 and $549,000 for the three years ended March 31, 1999, respectively, to related parties. At March 31, 1997, 1998 and 1999, there were accounts receivable from related parties in the amounts of $148,000, $5,000 and $154,000, respectively, included in the balance sheets.

Note 12--Subsequent Events:

Initial public offering In June 1999, the Board of Directors of Virata Limited authorized management to file a registration statement with the Securities and Exchange Commission to permit the Company to sell shares of its common stock to the public. In association with the offering, the Board of Directors authorized soliciting the shareholders for their approval of: (i) the cancellation of all outstanding convertible preferred and common stock and all other securities convertible into preferred or common stock of Virata Limited, (ii) the issuance of new common shares of Virata Limited to Virata Corporation and the issuance of shares of common stock of Virata Corporation to the former shareholders of Virata Limited, and (iii) a reverse stock split. These events are to occur immediately prior to the offering.

Virata Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Borrowing Agreement In August 1999, the Company entered into a borrowing agreement with a financial institution for $3,000,000 of the Company's borrowing base, as determined by the agreement. The agreement bears interest at prime rate plus one half percent and all outstanding advances are due in August 2000. The agreement is collateralized by the Company's property, equipment, intellectual property, inventory, and receivables and requires compliance with certain debt covenants.

Report of Independent Accountants

To the Board of Directors of Virata Raleigh Corporation In our opinion, the accompanying balance sheets and the related statements of operations, of stockholder's equity (deficit) and of cash flows present fairly, in all material respects, the financial position of RSA Communications, Inc. at March 31, 1997 and 1998, and the results of its operations and its cash flows for the year ended March 31, 1997, the period from April 1, 1997 through June 5, 1997 and the period from June 6, 1997 through March 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP Raleigh, North Carolina August 19, 1999

Rsa Communications, Inc.

Balance Sheet

March 31, 1997 1998

ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,384	$ 822,482
Accounts receivable, net of allowance for doubtful accounts of $0 and $10,000 at March 31, 1997 and 1998, respectively	262,139	1,063,100
Prepaid and other assets	79,384	19,041
Total current assets	347,907	1,904,623
Receivable from parent	639,362	--
Deferred income taxes	--	481,795
Property and equipment, net	1,065,550	110,303
Total assets	$ 2,052,819	$ 2,496,721
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 198,649	$ 236,413
Accrued liabilities	475,464	764,731
Deferred revenue	11,512	12,000
Stock appreciation rights	--	1,870,866
Total current liabilities	685,625	2,884,010
Negative goodwill	--	252,305
Commitments (Note 5)	--	--
Stockholder's equity (deficit):		
Common stock, 10,000 shares authorized, 10,000 shares and 6,000 shares issued and outstanding at March 31, 1997 and 1998, respectively	2,000,000	6
Accumulated deficit	(632,806)	(639,600)
Total stockholder's equity (deficit)	1,367,194	(639,594)
Total liabilities and stockholder's equity (deficit)	$ 2,052,819	$ 2,496,721

The accompanying notes are an integral part of these financial statements.

Rsa Communications, Inc.

Statement of Operations

	Year ended March 31, 1997	Period from April 1, 1997 through June 5, 1997	Period from June 6, 1997 through March 31, 1998
Revenues:			
Software products	$ 1,087,703	$ 1,197	$1,938,877
Consulting services	544,760	3,024	2,376,936
Total revenues	1,632,463	4,221	4,315,813
Operating expenses:			
Research and development and cost of consulting services	1,301,607	308,557	2,157,842
Selling, general and administrative	1,036,908	203,907	893,560

Compensation from stock appreciation rights.....	--	--	1,870,866
Total operating expenses.....	2,338,515	512,464	4,922,268
Loss from operations.....	(706,052)	(508,243)	(606,455)
Other income (expense), net.....	(6,250)	--	57,217
Loss before income taxes.....	(712,302)	(508,243)	(549,238)
Income tax provision.....	126,500	--	90,362
Net loss.....	$ (838,802)	$(508,243)	$ (639,600)

The accompanying notes are an integral part of these financial statements.

Rsa Communications, Inc.

STATEMENT OF STOCKHOLDER'S EQUITY (DEFICIT) For the year ended March 31, 1997, the period from April 1, 1997 through June 5, 1997 and the period from June 6, 1997 through March 31, 1998 Common Stock Accumulated Shares Amount Deficit Total

Balance, March 31, 1996.....	10,000	$2,000,000	$ 205,996	$2,205,996
Net loss for the year ended March 31, 1997.....	--	--	(838,802)	(838,802)
Balance, March 31, 1997.....	10,000	2,000,000	(632,806)	1,367,194
Net loss for the period from April 1, 1997 through June 5, 1997.....	--	--	(508,243)	(508,243)
Balance, June 5, 1997.....	10,000	$2,000,000	$(1,141,049)	$ 858,951
Issuance of common stock on June 6, 1997 in conjunction with acquisition (see Note 2).....	6,000	$ 6	$ --	$ 6
Net loss for the period from June 6, 1997 through March 31, 1998...	--	--	(639,600)	(639,600)
Balance, March 31, 1998.....	6,000	$ 6	$ (639,600)	$ (639,594)

The accompanying notes are an integral part of these financial statements.

Rsa Communications, Inc.

Statement of Cash Flows

	Year Ended March 31, 1997	Period from April 1, 1997 through June 5, 1997	Period from June 6, 1997 through March 31, 1998
Cash flows from operations:			
Net loss.....	$ (838,802)	$(508,243)	$ (639,600)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation.....	285,215	65,243	23,241
Amortization of negative goodwill.....	--	--	(50,458)
Provision for doubtful accounts..	--	--	10,000
Compensation related to stock appreciation rights.....	--	--	1,870,866
Change in assets and liabilities:			
Accounts receivable.....	2,693,111	221,239	(1,032,200)

Prepaids and other current assets	47,747	64,061	(3,719)
Receivable from parent	(1,757,186)	867,495	--
Deferred income taxes	--	--	(481,795)
Accounts payable	180,727	(188,144)	225,906
Accrued liabilities	234,019	16,250	693,792
Deferred revenue	7,502	(11,512)	12,000
Net cash provided by operating activities	852,333	526,389	628,033
Cash flows from investing activities:			
Acquisition of property and equipment	(626,728)	(204,786)	(133,544)
Repayment of notes payable	(500,000)	--	--
Net cash used by investing activities	(1,126,728)	(204,786)	(133,544)
Cash flows from financing activities:			
Issuance of common stock	--	--	6
Net increase (decrease) in cash and cash equivalents	(274,395)	321,603	494,495
Cash and cash equivalents, beginning of period	280,779	6,384	327,987
Cash and cash equivalents, end of period	$ 6,384	$ 327,987	$ 822,482
Supplemental cash flow information:			
Cash paid for income taxes	$ 126,500	$ --	$ 572,157

The accompanying notes are an integral part of these financial statements.

Rsa Communications, Inc.

Notes to Financial Statements

1. Description of Business and Summary of Significant Accounting Policies RSA Communications, Inc. ("RSA") develops software applications and provides custom engineering services to the communications industry by providing systems-level design expertise for applications requiring embedded modem technology. The Company utilizes proprietary firmware code modules for a wide range of traditional, controllerless, and soft modem implementations from single modem designs to complex, multiple-modem network applications.

Basis of Presentation Prior to June 6, 1997, RSA was a wholly-owned subsidiary of Pacific Communications Sciences, Inc. ("PCSI"), which was a wholly-owned subsidiary of Cirrus Logic, Inc. Effective June 6, 1997, RSA was acquired from PCSI by Raleigh Communications, Inc., which was created for the sole purpose of acquiring RSA. Immediately following the acquisition, Raleigh Communications, Inc. was merged into RSA.

The financial statements of RSA for the fiscal year ended March 31, 1997 and the period from April 1, 1997 to June 5, 1997, represent the results of operations and financial position of RSA on the historical cost basis of accounting. The financial statements of RSA for the period subsequent to the

acquisition by Raleigh Communications, Inc. (June 6, 1997 to March 31, 1998) reflect the impact on RSA's financial position and results of operations of the purchase accounting adjustments discussed in Note 2.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents RSA considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Significant Customers and Concentration of Credit Risk RSA operates in a very competitive industry that has been characterized by rapid technological change, short product life cycles, cyclical market patterns and heightened foreign and domestic competition. Significant technological changes in the industry could affect operating results adversely.

RSA markets and sells its software and consulting services to a narrow base of customers. Sales to one customer comprised 69% of total revenues for the fiscal year ended March 31, 1997. Sales to two customers comprised 54% and 18% of total revenues for the period from June 6, 1997 to March 31, 1998. RSA performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral. RSA maintains allowances for potential losses, and such losses have been within management's expectations. At March 31, 1997 one customer accounted for 27% of total accounts receivable and a second customer accounted for 22% of total accounts receivable. At March 31, 1998, one customer accounted for 65% of total accounts receivable and a second customer accounted for 31% of total accounts receivable.

Rsa Communications, Inc.

NOTES TO FINANCIAL STATEMENTS--(Continued) RSA's cash and cash equivalents as of March 31, 1997 and 1998 are primarily on deposit with one U.S. financial institution and may, at times, exceed federal insured amounts.

Fair Value of Financial Instruments Carrying amounts of certain of RSA's financial instruments including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other liabilities approximate fair value due to their short maturities.

Property and Equipment Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the related assets, generally two to five years. Gains and losses upon asset disposal are taken into income in the year of disposition.

Revenue Recognition

Software license revenue is recognized upon delivery of the product if collection is considered probable and remaining vendor obligations are insignificant and do not exceed one year. An accrual for the estimated costs of warranty and post-sale customer support is recorded upon delivery of the related products. RSA does not offer extended support and maintenance services.

RSA has adopted the requirements of Statement of Position ("SOP") 97-2, "Software Revenue Recognition," for all contracts entered into after March 31, 1998. The adoption of SOP 97-2 is not expected to materially impact the financial position or results of operations of RSA.

RSA recognizes revenue from its consulting services using the completed contract method of accounting. Provisions for anticipated losses are made in the period in which they first become determinable.

Software Development Costs Software development costs are included in consulting and research and development costs and are expensed as incurred. After technological feasibility is established, software development costs are capitalized until the related software products are available for general release. The capitalized cost is then amortized on a straight-line basis over the estimated product life. RSA has defined technological feasibility as the establishment of a working model that typically occurs when beta testing commences. To date, RSA has not capitalized any software development costs as the date at which technological feasibility is achieved and the availability of the software products for general release have substantially coincided.

Income Taxes

RSA accounts for income taxes using the liability method whereby deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities, measured at tax rates that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Negative Goodwill

Negative goodwill of $302,763 was recorded upon the acquisition of RSA by Raleigh Communications, Inc. on June 6, 1997 (see Note 2). Negative goodwill is amortized using the straight-line method over a period of five years. Accumulated amortization of negative goodwill as of March 31, 1998 was $50,458.

Rsa Communications, Inc.

NOTES TO FINANCIAL STATEMENTS--(Continued) 2. Acquisition Effective June 6, 1997, all the outstanding common stock of RSA was acquired from PCSI by Raleigh Communications, Inc. The acquisition was accounted for using the purchase method of accounting with the result that the beginning values of tangible and intangible assets and liabilities of RSA were recorded based on their respective estimated fair values at the date of purchase. However, as the entire purchase price of RSA

was contingent upon certain future events, the value of all intangible and long term assets were reduced to zero and negative goodwill was recognized in the amount necessary to reduce net assets to zero. The purchase price for RSA was as follows:

(a) 50% of the gross proceeds from (i) the subsequent sale of all or substantially all of the stock or assets of RSA to a third party or (ii) a subsequent merger or other transfer of RSA with or into a third party, not to exceed $2,000,000.

(b) 3% of the annual gross revenues of RSA in excess of $3,000,000. This section (b) does not apply after the payments called for in (a) are made to PCSI, or the promissory note (described below) is paid in full.

In conjunction with this transaction, RSA entered into a promissory note with PCSI with the principal sum being the amount determined in (a) above. The principal amount will not exceed $2,000,000, bears no interest and is payable in full at the time of closing of a sale or merger. The promissory note can also be settled at any time prior to a sale or merger by payment of $2,000,000. For financial reporting purposes this promissory note was not recorded at the date of the acquisition due to the contingent nature of the sales price.

A summary of the purchase accounting entry made on June 6, 1997 to record assets and liabilities of RSA based on the purchase price paid by Raleigh Communications, Inc. was as follows:

Cash and cash equivalents	$ 327,987
Accounts receivable	40,900
Prepaids and other current assets	15,322
Accounts payable	(10,507)
Accrued liabilities	(70,939)
Negative goodwill	(302,763)
	$ --

3. Accounts Receivable Accounts receivable consisted of the following at March 31, 1997 and 1998:

	1997	1998
Trade accounts receivable	$ 221,339	$ 1,073,100
Unbilled receivables	40,800	--
	262,139	1,073,100
Less: Allowance for doubtful accounts	--	(10,000)
	$ 262,139	$ 1,063,100

Rsa Communications, Inc.

NOTES TO FINANCIAL STATEMENTS--(Continued) 4. Property and Equipment Property and equipment consisted of the following at March 31, 1997 and 1998:

	1997	1998
Office furniture and equipment	$ 1,267,008	$ 4,228
Computer software and equipment	4,464,804	129,316
	5,731,812	133,544
Less: Accumulated depreciation	(4,666,262)	(23,241)
	$ 1,065,550	$ 110,303

5. Commitments

RSA leases its office facilities and certain equipment under noncancelable operating leases expiring through June 2000. Future minimum lease payments under the noncancelable operating leases at March 31, 1998 were as follows:

1999	$ 121,500
2000	124,730
2001	21,044
	$ 267,274

Rent expense for the fiscal year ended March 31, 1997 and for the period from April 1, 1997 through June 5, 1997 was $566,599 and $118,286, respectively.

Rent expense for the period from June 6, 1997 through March 31, 1998 was $89,261.

6. Stockholder's Equity Stock Appreciation Rights The stock appreciation rights relate to RSA's phantom stock option plan which was established in November 1997, to provide benefits to its employees and consultants. At the commencement of the plan RSA authorized the issuance of up to 6,000 phantom stock units ("PSU") under the plan. Each PSU consists of a right to receive from RSA, upon the occurrence of a payment event, the same net consideration as is received (1) for one share of common stock of RSA in a merger with or into another corporation, (2) for one share of stock in a sale of substantially all of the stock or assets of RSA, or (3) per share proceeds from the liquidation of RSA. No payments will be made under the PSUs until a payment event (described above) occurs. However, in the event of an initial public offering, each PSU will immediately convert into one share of common stock. In the event of termination of employment, either voluntarily or involuntarily, prior to a payment event, the participant forfeits all rights under the PSUs.

During the period that the PSU is outstanding, the ultimate amount of compensation inherent in the award is not determinable. APB No. 25, "Accounting for Stock Issued to Employees" and FASB Interpretation No. 28 require interim calculations of the amount of compensation inherent in the award (variable accounting) if it is probable that the payment event will occur. This amount is equal to the increase in the fair value of the stock since the date of the award, multiplied by the total number of shares or units outstanding, regardless of the exercisable status of the awards. At March 31, 1998, 3,875 PSUs, had been issued and were outstanding.

Rsa Communications, Inc.

NOTES TO FINANCIAL STATEMENTS--(Continued) Estimated compensation expense recorded related to these PSUs was $1,870,866 for the period from June 6, 1997 through March 31, 1998 based on the estimated purchase price of RSA by Virata Limited (see Note 9).

7. Income Taxes

RSA's provision for income taxes consisted of the following:

	Period from April 1, 1997	Period from June 6, 1997

	Year ended March 31, 1997	through June 5, 1997	through March 31, 1998
Current:			
Federal	$ --	$--	$ 481,795
State	--	--	90,362
Foreign Taxes	126,500	--	--
	126,500	--	572,157
Deferred:			
Federal	--	--	(481,795)
Income tax provision	$126,500	$--	$ 90,362

RSA's effective tax differs from the statutory federal income tax as shown in the following table:

	Year ended March 31, 1997	Period from April 1, 1997 through June 5, 1997	Period from June 6, 1997 through March 31, 1998
Statutory federal income tax benefit	$(242,183)	$(176,803)	$(186,739)
State taxes, net of federal benefit	(21,512)	(12,846)	(28,335)
Goodwill	2,038	1,081	(17,157)
Nondeductible expenses	316,528	175,722	26,733
Change in valuation allowance	71,629	12,846	423,205
Research and development credit utilized	--	--	(53,345)
Foreign tax credit utilized	--	--	(74,000)
Income tax provision	$ 126,500	$ --	$ 90,362

Temporary differences which give rise to significant portions of the deferred tax assets were as follows at March 31, 1997 and 1998:

Deferred tax assets:	1997	1998
Accrued compensation	$ --	$901,500
Net operating loss carryforwards	14,215	--
Accrued expenses	57,414	3,500
Total deferred tax assets	71,629	905,000
Valuation allowance	(71,629)	(423,205)
Net deferred tax assets	$ --	$481,795

Rsa Communications, Inc.

NOTES TO FINANCIAL STATEMENTS--(Continued) The deferred asset of $481,795 at March 31, 1998 was realized subsequent to March 31, 1998 in the form of a net operating loss carryback from the subsequent period. RSA has provided a valuation allowance against the remaining deferred tax asset due to the uncertainty regarding realizability.

8. Related Party Transactions During the year ended March 31, 1997 and the period from April 1, 1997 through June 5, 1997, while owned by PCSI, RSA performed work for PCSI. The expenses incurred for such work have been charged back to PCSI through intercompany accounts. The amounts charged back are shown as a reduction of expense in the accompanying statements of operations. For the year ended March 31, 1997 and the period from April 1, 1997 through June 5, 1997, engineering and research and development have been reduced by $2,739,121 and $321,503, respectively, for

amounts charged back to PCSI. Selling, general and administrative expenses include $841,974 and $124,734 of charge backs for the year ended March 31, 1997 and the period from April 1, 1997 through June 5, 1997, respectively.

9. Subsequent Event

In March 1998, RSA entered into an agreement to be acquired by Virata Limited. The acquisition was consummated on July 17, 1998, on which date RSA paid PCSI $2,039,191. This amount represented the $2,000,000 due under the promissory note (see Note 2) and 3% of annual gross revenues in excess of $3,000,000 for the period from June 6, 1997 through March 31, 1998 (see Note 2).

On August 18, 1999 RSA changed its name from RSA Communications, Inc. to Virata Raleigh Corporation.

Virata Corporation

PRO FORMA COMBINED FINANCIAL INFORMATION (Unaudited) On July 17, 1998, the Company completed its acquisition of RSA in a transaction accounted for as a purchase business combination. Under the purchase method of accounting, the aggregate purchase price is required to be allocated to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values on the acquisition date. The unaudited pro forma combined statement of operations is based on the individual statement of operations of the Company for the fiscal year ended March 31, 1999 and RSA for the period from April 1, 1998 to July 16, 1998. RSA's operating results for the period from July 17, 1998 to March 31, 1999 are included in the Company's historical consolidated statement of operations for the fiscal year ended March 31, 1999. Adjustments have been made to such information to give effect to the acquisition of RSA, as if the acquisition had occurred on April 1, 1998.

The information has been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and is provided for comparative purposes only. The pro forma information does not purport to be indicative of the results that actually would have occurred had the combination been effected at the beginning of the periods presented.

Virata Corporation

PRO FORMA COMBINED STATEMENT OF OPERATIONS (Unaudited) (in thousands except per share data) Year Ended March 31, 1999 Virata RSA Adjustments Pro Forma

Revenues	$ 9,256	$ 819	$ --	$ 10,075
Cost of revenues	3,997	486	--	4,483
Gross profit	5,259	333	--	5,592
Operating expenses:				
Research and development	8,323	1,353	--	9,676
Sales and marketing	2,917	371	--	3,288
General and administrative	5,567	459	--	6,026
Amortization of intangible assets	549	--	226 (A)	775
Amortization of stock				

compensation.....	1,394	--	--	1,394
Acquired in-process research and development.....	5,260	--	--	5,260
Total operating expenses.....	24,010	2,183	226	26,419
Loss from operations.....	(18,751)	(1,850)	(226)	(20,827)
Interest expense.....	(155)	--	--	(155)
Interest and other income.....	1,749	9	--	1,758
Net loss.....	$(17,157)	$ (1,841)	$ (226)	$ (19,224)
Basic and diluted net loss per share.....	$ (1.33)			$ (1.44)
Weighted average common shares--basic and diluted.....	12,881			13,321
Unaudited pro forma basic and diluted net loss per share (Note 3).....	$ (0.21)			$ (0.24)
Pro forma weighted average shares--basic and diluted.....	80,900			81,612

Virata Corporation

NOTES TO PRO FORMA COMBINED FINANCIAL INFORMATION (Unaudited) Note 1--Basis of Presentation In July 1998, the Company acquired RSA, a privately held company specializing in analog modem software development.

The unaudited combined pro forma information presented is not necessarily indicative of the future consolidated results of operations of the Company or the consolidated results of operations that would have resulted had the acquisition taken place on April 1, 1998. The unaudited pro forma combined statement of operations for the fiscal year ended March 31, 1999 reflects the effects of the acquisition, assuming the related events occurred as of April 1, 1998 for the purposes of the unaudited pro forma statement of operations.

Note 2--Purchase Price Allocation:

The unaudited pro forma combined financial statements reflect a total purchase price of $9,275,000 consisting of 1,540,000 shares of the Company's common stock valued at $1,417,000, 606,500 shares of Series D preferred convertible stock valued at $668,000, 1,993,000 stock options valued at $1,505,000, cash of $5,332,000 and acquisition related expenses of approximately $353,000 consisting primarily of legal and other professional fees. The company valued the options using the Black-Scholes option pricing model, applying expected life of four years, a weighted average risk free rate of 5.47%, an expected dividend yield of zero percent, a volatility of 70% and a deemed fair value of common stock of $0.92.

The valuation of the purchased in-process research and development of $5,260,000 was based on the result of an independent appraisal which was determined using the income-based approach for modem chips and replacement cost method for software algorithm. The purchased in-process technology was not considered to have reached technological feasibility and had no alternative future use. Accordingly, the amount was charged to operations at the date of acquisition.

The goodwill is being amortized on a straight-line basis over the estimated period of benefit of five years.

The Company's allocation of RSA's aggregate purchase price to the tangible and identifiable intangible assets acquired in connection with this acquisition were based on fair values as determined by independent appraisers. The allocation is summarized below (in thousands):

In-process research and development..... $5,260
Goodwill..... 3,873 Net assets..... 142 Total purchase price..... $9,275 Note 3--Unaudited Pro Forma Combined Net Loss Per Share The net loss per share and shares used in computing the net loss per share for the fiscal year ended March 31, 1999 is based upon the historical weighted average common shares outstanding. The Virata common stock issuable upon the exercise of the stock options and warrants have been excluded as the effect would be anti-dilutive. In addition to the shares used in computing the net loss per share above, pro forma net loss per share is calculated using the convertible preferred stock outstanding as if such shares were converted to common stock at the time of issuance.

Virata Corporation

NOTES TO PRO FORMA COMBINED FINANCIAL INFORMATION--(Continued) (Unaudited) The 1,540,000 shares of common stock and the 606,500 shares of Series D convertible preferred stock issued in connection with the purchase price of RSA have been included in the calculation of pro forma basic and diluted net loss per share for the fiscal year ended March 31, 1999 as follows in thousands:

Shares used in computing basic and diluted net loss per share..... 12,881 Adjustment to reflect the assumed conversion of preferred stock..... 68,019 Adjustment to reflect the assumed conversion of common stock issued in connection with the purchase of RSA..... 440 Adjustment to reflect the assumed conversion of Series D convertible preferred stock..... 272 Shares used in computing pro forma basic and diluted net loss per share..... 81,612 Note 4--Purchase Adjustments:

The following adjustment was applied to the Company's historical financial statements and those of RSA to arrive at the pro forma consolidated Statement of Operations.

(A) To record annual amortization of goodwill that is being amortized over the estimated period of benefit of five years.

[Virata Logo]

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution.

The following costs and expenses, other than underwriting discounts and commissions, payable by the Registrant in connection with this offering. All amounts are estimates except the SEC registration fee, the NASD filing fee and the Nasdaq National Market listing fee.

SEC registration fee	$13,900
NASD fee	5,500
Nasdaq National Market listing fee	*
Printing and engraving costs	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue Sky fees and expenses	3,000
Transfer agent and registrar fees and expenses	*
Miscellaneous	*
Total	$ *

* To be provided by amendment.

Item 14. Indemnification of Directors and Officers.

Section 145 of the General Corporation Law of the State of Delaware provides for the indemnification of officers and directors under certain circumstances against expenses incurred in successfully defending against a claim and authorizes Delaware corporations to indemnify their officers and directors under certain circumstances against expenses and liabilities incurred in legal proceedings involving such persons because of their being or having been an officer or director. Article VIII of the Registrant's Certificate of Incorporation and the Registrant's By-laws provide that all persons who the Registrant is empowered to indemnify pursuant to the provisions of Section 145 of the Delaware General Corporation Law (or any similar provision or provisions of applicable law at the time in effect), shall be indemnified by the Registrant to the full extent permitted thereby except that no person shall be indemnified for any expenses or amounts paid with respect to any action to recover short swing profits under Section 16(b) of the Securities Exchange Act of 1934, as amended. The foregoing right of indemnification shall not be deemed to be exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of stockholders or disinterested directors, or otherwise. In addition, the Registrant has entered into Indemnity Agreements with its directors and certain of its officers.

Section 102(b) of the Delaware General Corporation Law permits a corporation, by so providing in its certificate of incorporation, to eliminate or limit director's liability to the corporation and its stockholders for monetary damages arising out of certain alleged breaches of their fiduciary duty. Section 102(b)(7) provides that no such limitation of liability may affect a director's liability with respect to any of the following: (i) breaches of the director's duty of loyalty to the corporation or its stockholders; (ii) acts or omissions not made in good faith or which involve intentional misconduct of knowing violations of law; (iii) liability for dividends paid or stock repurchased or redeemed in violation of the Delaware General Corporation law; or (iv) any transaction from which the director derived an improper personal benefit. Section 102(b)(7) does not authorize any limitation on the ability of the corporation or its stockholders to obtain injunction relief, specific performance or other equitable relief against directors.

Reference is made to the Underwriting Agreement, the proposed form of which is filed as Exhibit 1.1, pursuant to which the underwriters agree to indemnify the directors and certain officers of the Registrant and certain other persons in certain circumstances.

Item 15. Recent Sales of Unregistered Securities.

During the past three fiscal years, we have issued securities of Virata Limited as follows:

Issuances of Ordinary Shares.

. In July 1997, we issued a warrant to purchase 75,000 ordinary shares in a private placement to Dr. Robert W. Wilmott at an exercise price per share of $0.08 in connection with consulting services provided to us; and . In July 1998, we sold 1,540,000 ordinary shares in a private placement at a purchase price of $1.01 per share in connection with the acquisition of RSA Communications, Inc.; and . We have issued an aggregate of 1,200,644 ordinary shares in connection with the exercise of options by our employees.

Issuances of Preferred Stock.

. In May 1996, we sold 5,127,485 Series B preference shares in a private placement at a purchase price of (Pounds)0.70 per share;

. In June 1996, we sold 6,666,667 Series C preference shares in a private placement at a purchase price of $1.50 per share;

. In October 1996, we issued a warrant to purchase 61,705 Series C preference shares in a private placement to Comdisco Ventures at an exercise price per share of $1.50 in connection with an equipment financing;

. In September 1997, we issued a warrant to purchase 8,000 Series C preference shares in a private placement to Comdisco Ventures at an exercise price per share of $1.50 in connection with an equipment financing;

. In December 1997, we issued a warrant to purchase 35,294 Series C preference shares in a private placement to Venture Lending, a division of Cupertino National Bank and Trust, at an exercise price per share of $1.70 in connection with a bank facility; in June 1998, this warrant automatically converted into a warrant to purchase 35,294 Series D preference shares at an exercise price per share of $1.70;

. In December 1997 and January 1998, we issued an aggregate amount of $2,642,980 of bridge notes that were convertible into our Series D preference shares.

. In March 1998 we issued a bridge note to Index Securities S.A. in the amount of $700,000 that was convertible into our Series D preference shares.

. In June 1998, we sold 24,780,934 Series D preference shares in a private placement at a purchase price of $1.10 per share;

. In June 1998, we issued 3,039,073 Series D preference shares in a private placement at a purchase price of $1.10 per share in connection with the conversion of bridge notes held by certain of our stockholders;

. In June 1998, we issued 15,123,062 Series D preference shares in a private placement at a purchase price of $1.10 per share in connection with the conversion of 12,460,150 Series B preference shares and 2,000,000 Series C preference shares, . In June 1998, we sold 606,500 Series D preference shares in a private placement at a purchase price of $1.10 per share in connection with the acquisition of RSA Communications, Inc.;

. In June 1998, we issued warrants to purchase an aggregate of 1,595,054 Series D Preference Shares for $1.10 per share to Index Securities S.A. in connection with its acting as placement agent in our Series D preference share financing;

. In June 1998, we sold 18,182 Series D preference shares to Andrew Hopper in a private placement in exchange for Mr. Hopper serving on our technology advisory board;

. In September 1998, we issued a warrant to purchase 109,091 Series D preference shares in a private placement to Comdisco Ventures at an exercise price per share of $1.10 in connection with an equipment financing; and . In May 1999, we issued a warrant to purchase 54,545 Series D preference shares in a private placement to Comdisco Ventures at an exercise price per share of $1.10 in connection with an equipment financing.

The issuance and sale of the above securities were exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act or Regulation D or Regulation S promulgated thereunder. The recipients of securities in each such transaction represented their intentions to acquire the securities for investment only and now with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates issued in such transactions. All recipients had adequate access to information about the Registrant.

Immediately prior to the consummation of this offering, all of the outstanding ordinary and preference shares of Virata Limited will be cancelled, new ordinary shares of Virata Limited will be issued to Virata Corporation and shares of common stock of Virata Corporation will be issued to the former shareholders of Virata Limited. These transactions will take place immediately prior to the consummation of this offering and will be effected pursuant to a share reconstruction under Section 425 of the United Kingdom Companies Act of 1985. Any securities that are convertible or exercisable into ordinary shares or preference shares of Virata Limited will become convertible or exercisable into shares of one common stock upon consummation of the share reconstruction.

Item 16. Exhibits

(a) Exhibits

Exhibit Number Description Page

1.1 Form of Underwriting Agreement.....
3.1 Certificate of Incorporation of the Registrant.....
3.2 Bylaws of the Registrant.....

4.1 Specimen form of Registrant's Common Stock Certificate*.....
5.1 Opinion of Gibson, Dunn & Crutcher LLP*.....
10.1 Agreement with Gaz et Eaux and Board with respect to Board of Directors and other shareholder rights+.....
10.2 Agreement and Plan of Merger among Virata Limited, Virata Acquisition Sub, Inc., a Delaware corporation, RSA Communications, Inc., a Delaware corporation, and Munther Qubain, an individual, dated as of June 1, 1998+.....
10.3 Amendment No. 1 to Agreement and Plan of Merger among Virata Limited, Virata Acquisition Sub, Inc., a Delaware corporation, RSA Communications, Inc., a Delaware corporation, and Munther Qubain, an individual, dated as of June 25, 1998.....
10.4 Form 1 of 1998 Stock Incentive Plan Agreement of Virata Limited.....
10.5 Form 2 of 1998 Stock Incentive Plan Agreement of Virata Limited.....
10.6 Form of 1998 Nonqualified Stock Option Plan Agreement of Virata Limited.....
10.7 Warrant Agreement between Virata Limited and Index Securities, S.A., dated as of June 4, 1998+.....
10.8 Form of Warrant between Virata Limited and Comdisco, Inc.....
10.9 Lease between WHC-SIX Real Estate Limited Partnership and Advanced Telecommunications Modules, Inc., a California corporation, dated June 26, 1996+.....

10.10 Lease Agreement between Lake Partners, L.L.C. and RSA Communications, Inc., dated as of July 1, 1998*.....
10.11 Lease between Universities Superannuation Scheme Limited and Advanced Telecommunications Modules Limited, dated 1994*.....
10.12 License to Subunderlet among Universities Superannuation Scheme Limited, Royal Insurance (U.K.) Limited, Hill Samuel Investment Services Group Limited, and Advanced Telecommunications Modules Limited, dated 1995+.....
10.13 Lease between Virata Limited and Comdisco, Inc., dated September 30, 1996+.....
10.14 Loan and Security Agreement among Venture Banking Group, Virata Santa Clara Corporation and Virata Raleigh Corporation, dated as of August 27, 1999.....
10.15 Collateral Assignment, Patent Mortgage and Security Agreement between Virata Ltd. and Venture Banking Group, dated as of August 27, 1999.....
10.16 Agreement between ARM Limited and Virata Ltd., dated June 2, 1999+++.....
10.17 Amendment No. 1 to License and Technical Co-Operation Agreement for ATM Technology between Ing. C. Olivetti & C., S.p.A. and Advanced Telecommunication Modules Limited, dated September 19, 1994.....
10.18 License and Technical Co-Operation Agreement for ATM Technology between Ing. C. Olivetti & C., S.p.A. and Advanced Telecommunications Modules Limited, dated December 3, 1993.....
10.19 Settlement Agreement between Virata Limited and Cirrus Logic, Inc., a California corporation, dated as of June 19, 1998+.....
10.20 Development, Production, Supply and License Agreement between Advanced Telecommunications Modules Limited and Symbios Incorporated, a Delaware corporation, dated as of August 16, 1997+.....
10.21 Form of 1999 Stock Incentive Plan.....
10.22 1999 Employee Stock Purchase Plan*.....
10.23 Form of Indemnity Agreement.....
10.24 Employment Agreement--Charles Cotton.....
10.25 Employment Agreement--Michael Gulett.....
10.26 Employment Agreement--Andrew Vought.....

10.27 Employment Agreement--Martin Jackson.....
10.28 Employment Agreement--Thomas Cooper.....
10.29 Form of Registration Rights Agreement*.....
10.30 Form of Non-Employee Director Plan*.....
21.1 List of Subsidiaries of Virata Corporation.....
23.1 Independent Auditors' Consent from PricewaterhouseCoopers LLP regarding Virata Corporation.....
23.2 Independent Auditors' Consent from PricewaterhouseCoopers LLP regarding RSA Communications, Inc.....
23.3 Consent of Gibson, Dunn & Crutcher LLP (to be included in their opinion filed as Exhibit 5.1)*.....
24.1 Power of Attorney (see signature page).....
27.1 Financial Data Schedule.....

* To be filed by amendment. + To be filed without Schedules. ++ Confidential treatment has been requested for selected sections of this exhibit.

(b) Financial Statement Schedule The following financial statement schedule is filed with Part II of this Registration Statement:

Schedule of valuation and qualifying accounts and reserves Schedules not listed above for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under applicable instructions or are inapplicable and therefore have been omitted.

Item 17. Undertakings.

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

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act") may be permitted to directors, officers and controlling persons of the Registrant pursuant to the Delaware General Corporation Law, the Registrant's Amended Certificate of Incorporation, the Registrant's Bylaws, 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.

The undersigned Registrant hereby undertakes that:

(i) 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 Act is part of this Registration Statement as of the time it was declared effective.

(ii) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement for 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 of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Palo Alto, State of California, on the 3rd day of September, 1999.

Virata Corporation

By: _____ /s/ Charles Cotton Charles Cotton Chief Executive Officer and Director KNOWN ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Charles Cotton and Andrew Vought, each of whom may act without joinder of the other, as their true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and any and all Registration Statements filed pursuant to Section 462 of the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents 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 might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement on Form S-1 has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Charles Cotton Charles Cotton	Chief Executive Officer and Director (Principal Executive Officer)	September 3, 1999
/s/ Andrew Vought Andrew Vought	Senior Vice President, Finance and Operations (Principal Financial Officer and Principal Accounting Officer)	September 3, 1999

/s/ Dr. Hermann Hauser Chairman of the Board September 3, 1999 Dr. Hermann Hauser /s/ Bandel Carano Director September 3, 1999 Bandel Carano /s/ Peter Morris Director September 3, 1999 Peter Morris

Report of Independent Accountantson Financial Statement Schedule

To the Board of Directors and Stockholders of Virata Corporation In connection with our audits of the financial statements of Virata Corporation as of March 31, 1998 and 1999, and for each of the three years in the period ended March 31, 1999, which financial statements are included in the Prospectus, we have also audited the financial statement schedule listed in Item 16(b) herein. In our opinion, this financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included herein.

/s/ PricewaterhouseCoopers LLP San Jose, California August 20, 1999

Schedule Ii

Virata Corporation

Valuation and Qualifying Account

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
		(in thousands)		
Allowance for doubtful accounts				
Year ended March 31, 1997.....	$ 602	$ 111	$ --	$ 713
Year ended March 31, 1998.....	713	1,075	221	1,567
Year ended March 31, 1999.....	1,567	1,458	283	2,742

Report of Independent Accountantson Financial Statement Schedule

To the Board of Directors and Stockholders of Virata Corporation In connection with our audits of the financial statements of Virata Corporation as of March 31, 1998 and 1999, and for each of the three years in the period ended March 31, 1999, which financial statements are included in the Prospectus, we have also audited the financial statement schedule listed in Item 16(b) herein. In our opinion, this financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included herein.

/s/ PricewaterhouseCoopers LLP San Jose, California August 20, 1999

Exhibit Index

Exhibit Number Description Page 1.1 Form of Underwriting Agreement..... 3.1 Certificate of Incorporation of the Registrant..... 3.2 Bylaws of the Registrant..... 4.1 Specimen form of Registrant's Common Stock Certificate*..... 5.1 Opinion of Gibson, Dunn & Crutcher LLP*..... 10.1 Agreement with Gaz et Eaux and Board with respect to Board of Directors and other shareholder rights+..... 10.2 Agreement and Plan of Merger among Virata Limited, Virata Acquisition Sub, Inc., a Delaware corporation, RSA Communications, Inc., a Delaware corporation, and Munther Qubain, an individual, dated as of June 1, 1998+..... 10.3 Amendment No. 1 to Agreement and Plan of Merger among Virata Limited, Virata Acquisition Sub, Inc., a Delaware corporation, RSA Communications, Inc., a Delaware corporation, and Munther Qubain, an individual, dated as of June 25, 1998..... 10.4 Form 1 of 1998 Stock Incentive Plan Agreement of Virata Limited..... 10.5 Form 2 of 1998 Stock Incentive Plan Agreement of Virata Limited..... 10.6 Form of 1998 Nonqualified Stock Option Plan Agreement of Virata Limited..... 10.7 Warrant Agreement between Virata Limited and Index Securities, S.A., dated as of June 4, 1998+..... 10.8 Form of Warrant between Virata Limited and Comdisco, Inc.+..... 10.9 Lease between WHC-SIX Real Estate Limited Partnership and Advanced Telecommunications Modules, Inc., a California corporation, dated June 26, 1996+..... 10.10 Lease Agreement between Lake Partners, L.L.C. and RSA Communications, Inc., dated as of July 1, 1998*..... 10.11 Lease between Universities Superannuation Scheme Limited and Advanced Telecommunications Modules Limited, dated 1994*..... 10.12 License to Subunderlet among Universities Superannuation Scheme Limited, Royal Insurance (U.K.) Limited, Hill Samuel Investment Services Group Limited, and Advanced Telecommunications Modules Limited, dated 1995+..... 10.13 Lease between Virata Limited and Comdisco, Inc., dated September 30, 1996+..... 10.14 Loan and Security Agreement among Venture Banking Group, Virata Santa Clara Corporation and Virata Raleigh Corporation, dated as of August 27, 1999..... 10.15 Collateral Assignment, Patent Mortgage and Security Agreement between Virata Ltd. and Venture Banking Group, dated as of August 27, 1999..... 10.16 Agreement between ARM Limited and Virata Ltd., dated June 2, 1999+++..... 10.17 Amendment No. 1 to License and Technical Co-Operation Agreement for ATM Technology between Ing. C. Olivetti & C., S.p.A. and Advanced Telecommunications Modules Limited, dated September 19, 1994..... 10.18 License and Technical Co-Operation Agreement for ATM Technology between Ing. C. Olivetti & C., S.p.A. and Advanced Telecommunications Modules Limited, dated December 3, 1993..... 10.19 Settlement Agreement between Virata Limited and Cirrus Logic, Inc., a California corporation, dated as of June 19, 1998+..... 10.20 Development, Production, Supply and License Agreement between Advanced Telecommunications Modules Limited and Symbios Incorporated, a Delaware corporation, dated as of August 16, 1997+..... 10.21 Form of 1999 Stock Incentive Plan..... 10.22 1999 Employee Stock Purchase Plan*..... 10.23 Form of Indemnity Agreement.....

Exhibit Index

Exhibit Number Description Page

10.24 Employment Agreement--Charles Cotton.....
10.25 Employment Agreement--Michael Gulett.....
10.26 Employment Agreement--Andrew Vought.....
10.27 Employment Agreement--Martin Jackson.....
10.28 Employment Agreement--Thomas Cooper.....
10.29 Form of Registration Rights Agreement*.....
10.30 Form of Non-Employee Director Plan*.....
21.1 List of Subsidiaries of Virata Corporation.....
23.1 Independent Auditors' Consent from PricewaterhouseCoopers LLP regarding Virata Corporation.....
23.2 Independent Auditors' Consent from PricewaterhouseCoopers LLP regarding RSA Communications, Inc.....
23.3 Consent of Gibson, Dunn & Crutcher LLP (to be included in their opinion filed as Exhibit 5.1)*.....
24.1 Power of Attorney (see signature page).....
27.1 Financial Data Schedule.....

* To be filed by amendment. + To be filed without Schedules. ++ Confidential treatment has been requested for selected sections of this exhibit. </TEXT>