SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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# FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended SEPTEMBER 30, 1998

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________.

Commission file number: 000-23993

BROADCOM CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| CALIFORNIA | 33-0480482 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No. |

16251 LAGUNA CANYON ROAD
IRVINE, CALIFORNIA 92618
(Address of principal executive offices and zip code)

(949) 450-8700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(D) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

The number of shares of the registrant's Common Stock, $0.0001 par value, outstanding as of November 11, 1998: 10,375,996 shares of Class A Common Stock and 34,245,739 shares of Class B Common Stock.

BROADCOM CORPORATION

QUARTERLY REPORT ON
FORM 10-Q
THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 1998

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BROADCOM CORPORATION

CONDENSED BALANCE SHEETS
(IN THOUSANDS)

| | September 30, 1998 (Unaudited) | December 31, 1997 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 42,706 | $ 22,116 |
| Short-term investments | 14,944 | -- |
| Accounts receivable, net | 22,356 | 9,913 |
| Inventory | 5,877 | 2,705 |
| Other current assets | 6,514 | 1,785 |
| Total current assets | 92,397 | 36,519 |
| Property and equipment, net | 24,649 | 8,449 |
| Long-term investments | 43,152 | -- |
| Other assets | 2,139 | 276 |
| Total assets | $ 162,337 | $ 45,244 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | $ 13,465 | $ 7,380 |
| Wages and related benefits | 2,735 | 846 |
| Accrued liabilities | 4,284 | 933 |
| Current portion of long-term debt | 110 | 1,098 |
| Total current liabilities | 20,594 | 10,257 |
| Long-term debt, less current portion | -- | 1,595 |
| Shareholders' equity: | | |
| Convertible preferred stock | -- | 28,617 |
| Common stock | 124,655 | 7,129 |
| Notes receivable from employees | (3,016) | (3,362) |
| Deferred compensation | (5,550) | (1,090) |
| Retained earnings | 25,654 | 2,098 |
| Total shareholders' equity | 141,743 | 33,392 |
| Total liabilities and shareholders' equity | $ 162,337 | $ 45,244 |

See accompanying notes.

BROADCOM CORPORATION

UNAUDITED CONDENSED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| Revenue: | | | | |
| Product revenue | $ 51,075 | $ 8,096 | $ 129,568 | $ 16,265 |
| Development revenue | 1,410 | 1,159 | 3,429 | 3,416 |
| Total revenue | 52,485 | 9,255 | 132,997 | 19,681 |
| Cost of revenue | 23,658 | 4,047 | 57,870 | 8,857 |
| Gross profit | 28,827 | 5,208 | 75,127 | 10,824 |
| Operating expense: | | | | |
| Research and development | 10,877 | 5,503 | 25,496 | 11,708 |
| Selling, general and administrative | 6,486 | 2,670 | 15,808 | 5,211 |
| Total operating expense | 17,363 | 8,173 | 41,304 | 16,919 |
| Income (loss) from operations | 11,464 | (2,965) | 33,823 | (6,095) |
| Interest and other income (expense), net | 1,116 | (41) | 2,417 | 22 |
| Income (loss) before income taxes | 12,580 | (3,006) | 36,240 | (6,073) |
| Provision (benefit) for income taxes | 4,403 | (1,202) | 12,684 | (2,428) |
| Net income (loss) | $ 8,177 | $ (1,804) | $ 23,556 | $ (3,645) |
| Basic earnings (loss) per share | $ 0.20 | $ (0.07) | $ 0.64 | $ (0.14) |
| Diluted earnings (loss) per share | $ 0.17 | $ (0.07) | $ 0.51 | $ (0.14) |
| Weighted average shares (basic) | 41,205 | 27,024 | 36,591 | 26,295 |
| Weighted average shares (diluted) | 48,425 | 27,024 | 45,866 | 26,295 |

See accompanying notes.

BROADCOM CORPORATION

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 1998 | 1997 |
| OPERATING ACTIVITIES | | |
| Net income (loss) | $ 23,556 | $ (3,645) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 5,213 | 2,159 |
| Amortization of deferred compensation | 909 | -- |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (12,443) | (2,353) |
| Inventory | (3,172) | (20) |
| Other assets | (6,754) | (180) |
| Accounts payable | 6,085 | 2,336 |
| Income taxes payable | 4,313 | (4,278) |
| Other accrued liabilities | 5,240 | 1,462 |
| Net cash provided by (used in) operating activities | 22,947 | (4,519) |
| INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (21,413) | (4,009) |
| Purchases of held-to-maturity investments | (58,096) | -- |
| Net cash used in investing activities | (79,509) | (4,009) |
| FINANCING ACTIVITIES | | |
| Proceeds from bank term loan | -- | 3,000 |
| Payments on bank term loan | (2,500) | (250) |
| Payments on capital lease obligations | (83) | (52) |
| Proceeds from issuance of Preferred Stock | -- | 22,689 |
| Net proceeds from initial public offering of Class A Common Stock | 79,170 | -- |
| Net proceeds from issuance (payments for repurchase) of Class B Common Stock | 565 | 682 |
| Net cash provided by financing activities | 77,152 | 26,069 |
| Increase in cash and cash equivalents | 20,590 | 17,541 |
| Cash and cash equivalents at beginning of period | 22,116 | 4,657 |
| Cash and cash equivalents at end of period | $ 42,706 | $ 22,198 |
| Supplemental disclosure of non-cash activities: | | |
| Notes receivable from employees in connection with exercise of stock options | $ 191 | $ 729 |

See accompanying notes.

BROADCOM CORPORATION

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 1998

1. BASIS OF PRESENTATION

The condensed financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments which, in the opinion of management, are necessary to present fairly the financial position of Broadcom Corporation (the "Company") at September 30, 1998 and the results of its operations and cash flows for the nine months ended September 30, 1998 and 1997. It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three and nine months ended September 30, 1998 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited condensed financial statements do not include footnotes and certain financial presentations normally required under generally accepted accounting principles. Therefore, these financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 1997, included in the Company's Final Prospectus dated October 20, 1998 (the "Final Prospectus"), filed as part of a Registration Statement on Form S-1, as amended (Reg. No. 333-65117).

2. EARNINGS PER SHARE

The following table sets forth the computation of earnings (loss) per share:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| | (In thousands, except per share data) | | | |
| Numerator: Net income (loss) | $ 8,177 | $ (1,804) | $ 23,556 | $ (3,645) |
| Denominator: | | | | |
| Weighted-average shares outstanding | 43,827 | 30,557 | 39,711 | 29,841 |
| Less: nonvested common shares outstanding | (2,622) | (3,533) | (3,120) | (3,546) |
| Denominator for basic earnings per common share | 41,205 | 27,024 | 36,591 | 26,295 |
| Effect of dilutive securities: | | | | |
| Nonvested common shares | 1,673 | -- | 1,917 | -- |
| Stock options | 5,540 | -- | 4,538 | -- |
| Warrants | 7 | -- | 2 | |
| Convertible preferred stock | -- | -- | 2,818 | -- |
| Denominator for diluted earnings per common share | 48,425 | 27,024 | 45,866 | 26,295 |
| Basic earnings (loss) per share | $ 0.20 | $ (0.07) | $ 0.64 | $ (0.14) |
| Diluted earnings (loss) per share | $ 0.17 | $ (0.07) | $ 0.51 | $ (0.14) |

## 3. COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" ("SFAS 130"), which establishes standards for reporting and displaying comprehensive income and its components in the financial statements. For the three and nine month periods ended September 30, 1998 and 1997, the Company did not have any components of comprehensive income as defined in SFAS 130.

## 4. INVESTMENTS

The Company accounts for its investments in debt securities pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Management determines the appropriate classification of such securities at the time of purchase and reevaluates such classification as of each balance sheet date. At September 30, 1998, all of the Company's investments were in state, municipal, county and United States government agency bonds, and were classified as held-to-maturity. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity investments are stated at cost, adjusted for amortization of premiums and discounts to maturity. A summary of held-to-maturity securities by balance sheet caption at September 30, 1998, is as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (In thousands) | | | |
| Cash equivalents | $23,153 | $ -- | $ (1) | $23,152 |
| Short-term investments | 14,944 | 33 | -- | 14,977 |
| Long-term investments | 43,152 | 154 | -- | 43,306 |
| Securities classified as held-to-maturity | $81,249 | $187 | $ (1) | $81,435 |

Scheduled maturities of held-to-maturity investments at September 30, 1998 were as follows:

| | Amortized Cost | Fair Value |
|---|---|---|
| | (In thousands) | |
| Debt securities maturing within: | | |
| One year | $38,097 | $38,129 |
| Two years | 43,152 | 43,306 |
| | $81,249 | $81,435 |

5. INVENTORY

Inventory is stated at the lower of cost (first-in, first-out) or market and consists of the following:

| | September 30, 1998 | December 31, 1997 |
|---|---|---|
| | (In thousands) | |
| Raw materials | $ 1,282 | $ 670 |
| Work in process | 3,132 | 1,645 |
| Finished goods | 5,286 | 2,076 |
| | 9,700 | 4,391 |
| Less reserve for excess and obsolete inventory | (3,823) | (1,686) |
| | $ 5,877 | $ 2,705 |

6. LONG-TERM DEBT

The following is a summary of the Company's long-term debt:

| | September 30, 1998 | December 31, 1997 |
|---|---|---|
| | (In thousands) | |
| Silicon Valley Bank term loan, collateralized by substantially all of the Company's assets, payable in varying monthly installments at a rate of 9.3% | $ -- | $ 2,500 |
| Capitalized lease obligations payable in varying monthly installments at rates from 10.4% to 22.3% | 110 | 193 |
| | 110 | 2,693 |
| Less current portion of long-term debt | (110) | (1,098) |
| | $ -- | $ 1,595 |

7. SHAREHOLDERS' EQUITY

Stock Option Plan

The 1998 Stock Incentive Plan (the "1998 Plan") was adopted on February 3, 1998 to serve as the successor equity incentive program to the Company's Amended and Restated 1994 Stock Option Plan (the "1994 Plan"). On April 8, 1998, the 1998 Plan effective date, outstanding options under the 1994 Plan and under the 1998 Special Stock Option Plan (the "Special Plan") (a plan adopted to permit options to be granted with certain terms permitted by the 1998 Plan prior to the 1998 Plan becoming effective) were incorporated into the 1998 Plan, and no further option grants will be made under the 1994 Plan or the Special Plan. A total of 15,948,439 shares of Common Stock have been authorized for issuance under the 1998 Plan (including shares reserved for issuance for options outstanding under the 1994 Plan and Special Plan). As of September 30, 1998, options to purchase an aggregate of 7,778,024 shares of Class B Common Stock were outstanding at a weighted average exercise price per share of $5.25 and options to purchase an aggregate of 920,050 shares of Class A Common Stock were outstanding at a weighted average exercise price per share of $37.03.

1998 Employee Stock Purchase Plan

The 1998 Employee Stock Purchase Plan (the "Purchase Plan") was adopted on February 3, 1998 and became effective on April 16, 1998. The Purchase Plan allows eligible employees to designate up to 15% of their total compensation to purchase shares of the Company's Class A Common Stock, at semi-annual intervals, at 85% of fair market value (determined as provided in the Purchase Plan). The Company has reserved 750,000 shares of Class A Common Stock for issuance under the Purchase Plan.

Initial Public Offering

In April 1998, the Company completed its initial public offering (the "Offering") of 4,025,000 shares of its Class A Common Stock. Of these shares, the Company sold 3,120,000 shares (including 355,000 shares issued in connection with the exercise of the underwriters' over-allotment option), and selling shareholders sold 905,000 shares (including 170,000 shares in connection with the exercise of the underwriters' over-allotment option), at a price of $24 per share. In addition, the Company sold 500,000 shares of Class A Common Stock to Cisco Systems, Inc. ("Cisco Systems") in a concurrent registered offering that was not underwritten, at a price of $22.32 per share. The Company received aggregate net proceeds from the Offering and the sale of shares to Cisco Systems of approximately $79.2 million in cash (net of underwriting discounts and commissions and estimated offering costs). Upon consummation of the Offering, all outstanding shares of the Company's Convertible Preferred Stock were automatically converted into an aggregate of 8,453,517 shares of Class B Common Stock.

Follow-on Public Offering

In October 1998, the Company completed a follow-on public offering of 3,450,000 shares of its Class A Common Stock. Of these shares, the Company sold 470,000 shares (including 77,500 shares in connection with the exercise of the underwriters' over-allotment option), and selling shareholders sold 2,980,000 shares (including 372,500 shares in connection with the exercise of the underwriters' over-allotment option), at a price of $69 per share. The Company received net aggregate proceeds of approximately $30.6 million after deducting underwriting discounts and commissions and estimated offering costs. The net proceeds from the follow-on public offering have not been included in the accompanying balance sheet at September 30, 1998.

Stock Split

On March 9, 1998, prior to the Offering, the Company effected a 3-for-2 stock split of the Company's Class B Common Stock. All share and per share amounts in the accompanying financial statements have been retroactively restated to reflect this change in the Company's capital structure.

8. LITIGATION

In December 1996, Stanford Telecommunications, Inc. ("STI") filed an action against the Company in the United States District Court for the Northern District of California. STI alleges that the Company's BCM3036, BCM3037, BCM3300, BCM93220 and BCM93220B products infringe one of STI's patents (the " '352 Patent"). STI is seeking an injunction as well as the recovery of monetary damages, including treble damages for willful infringement. The Company has filed an answer and affirmative defenses to STI's complaint, denying the allegations in STI's complaint, and has asserted a counterclaim requesting declaratory relief that the Company is not infringing the '352 Patent and that the '352 Patent is invalid and unenforceable. The Company believes that it has strong defenses to STI's claims on invalidity, noninfringement and inequitable conduct grounds. The Company and STI are currently conducting discovery in this case. On June 10, 1998 and July 21, 1998, the Court issued orders interpreting the claims of the '352 patent. The Court has scheduled trial for May 1999. Although the Company believes that it has strong defenses, a finding of infringement by the Company in this action could lead to liability for monetary damages (which could be trebled in the event that the infringement were found to have been willful), the issuance of an injunction requiring that the Company withdraw various products from the market, substantial product redesign expenses (assuming that a non-infringing design is feasible and economic) and associated time-to-market delays, and indemnification claims by the Company's customers or strategic partners, each of which events could have a material adverse effect on the Company's business, financial condition and results of operations.

In April 1997, Sarnoff Corporation and Sarnoff Digital Communications, Inc. (collectively, "Sarnoff") filed a complaint in New Jersey Superior Court against the Company and five former Sarnoff employees now employed by the Company (the "Former Employees") asserting claims against the Former Employees for breach of contract, misappropriation of trade secrets, and breach of the covenant of good faith and fair dealing, and against the Company for inducing such actions. Those claims relate to the alleged disclosure of certain technology of Sarnoff to the Company. The complaint also asserts claims against the Company and the Former Employees for unfair competition, misappropriation and misuse of trade secrets and confidential, proprietary information of Sarnoff, and tortious interference with present and prospective economic advantage, as well as a claim against the Company alleging that it "illegally pirated" Sarnoff's employees. The complaint seeks to preliminarily and permanently enjoin the Company and the Former Employees from utilizing any alleged Sarnoff trade secrets, and to restrain the Former Employees from violating their alleged statutory and contractual duties of confidentiality to Sarnoff by, for example, precluding them from working for six months in any capacity relating to certain of the Company's programs. The Company has asserted and believes that Sarnoff's claims are without merit. The Company has filed an answer and is vigorously defending itself in this action. In May 1997, the New Jersey court denied Sarnoff's request for a temporary restraining order. In June 1998, the New Jersey court denied the Company's motion for summary judgment. Sarnoff has clarified its claims to some extent by specifying in greater detail the trade secrets that it alleges the Company and the Former Employees misappropriated. The discovery period has been closed, subject to the completion by the parties of certain additional discovery no later than November 27, 1998. The Company has filed new motions for summary judgment based on recent admissions and other events. The Company's renewed motions for summary judgment are expected to be heard in December 1998 or January 1999, with trial expected to commence on or before February 16, 1999.

In July 1997, the Company commenced an action against Sarnoff in the California Superior Court alleging breach of contract, fraud, misappropriation of trade secrets, false advertising, trade libel, intentional interference with prospective economic advantage and unfair competition. The claims center on Sarnoff's violation of a non-disclosure agreement entered into with the Company with respect to limited use of certain of the Company's technology and on inaccurate comparisons that the Company believes Sarnoff has made in its product advertising and in statements to potential customers and others. This action was removed to the United States District Court for the Central District of California, and was stayed pending resolution of the New Jersey action described in the preceding paragraph. Notwithstanding that the California action is currently stayed, the Company believes that it involves facts, circumstances and claims unrelated to those at issue in the New Jersey action, and the Company intends to vigorously prosecute the California action against Sarnoff.

In March 1998, Scott O. Davis, the Company's former Chief Financial Officer, filed a complaint in California Superior Court against the Company and its Chief Executive Officer, Henry T. Nicholas, III, alleging claims for fraud and deceit, negligent misrepresentation, breach of contract, breach of fiduciary duty, constructive fraud, conversion, breach of the implied covenant of good faith and fair dealing, and declaratory relief. These claims relate to Mr. Davis' alleged ownership of 26,000 shares of Series D Preferred Stock originally purchased by Mr. Davis in March 1996 (which shares would have converted into 78,000 shares of Class B Common Stock upon consummation of the initial public offering). The purchase agreement between the Company and Mr. Davis contained a provision permitting the Company to repurchase all 26,000 shares of Series D Preferred Stock at the original price paid per share in the event that Mr. Davis did not continue to be employed by the Company for a certain period of time. After Mr. Davis resigned from the Company in June 1997, the Company exercised its repurchase right. Mr. Davis' complaint alleges that the repurchase right should not be enforceable under several legal theories and seeks unspecified damages and declaratory relief. If Mr. Davis is successful in his claim, he may be entitled to receive the shares of Class B Common Stock described above and may be entitled to certain other rights as a holder of Series D Preferred Stock, including without limitation the right to acquire certain shares of the Company's Series E Preferred Stock (or the shares of Class B Common Stock into which such shares of Series E Preferred Stock would have converted upon consummation of the initial public offering). In the alternative, Mr. Davis may be entitled to unspecified damages and punitive damages should he prevail. This case is currently in discovery. In April 1998, the Company filed an answer and affirmative defenses to Mr. Davis' complaint, denying the allegations in Mr. Davis' complaint. The Company has also asserted counterclaims against Mr. Davis for fraud and breach of fiduciary duty and is seeking to recover compensatory and punitive damages, in addition to other relief.

The Company is also involved in other legal proceedings, claims and litigation arising in the ordinary course of business.

The cases involving intellectual property rights involve complex questions of fact and law and could require the expenditure of significant costs and diversion of resources to defend. Although management believes the outcome of the Company's outstanding legal proceedings, claims and litigation will not have a material adverse effect on the Company's financial position, results of operations or liquidity, the results of litigation are inherently uncertain, and such outcome is at least reasonably possible. The Company is unable to make an estimate of the range of possible loss from outstanding litigation, and no amounts have been provided for such matters in the accompanying financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### CAUTIONARY STATEMENT

The following discussion and other sections of this Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, and is subject to the safe harbors created by those sections. These forward-looking statements are subject to significant risks and uncertainties, including without limitation those identified in the section of this Form 10-Q entitled "Risk Factors" and in the Company's Final Prospectus as filed with the Securities and Exchange Commission (the "SEC"). Such risks and uncertainties may cause actual results to differ materially and adversely from those discussed in such forward-looking statements. The forward-looking statements within this Form 10-Q are identified by words such as "believes," "anticipates," "expects," "intends," "may" and other similar expressions. However, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The Company disclaims any obligation to publicly release the results of any revisions to these forward-looking statements which may be made to reflect events or circumstances occurring subsequent to the filing of this Form 10-Q with the SEC or otherwise to revise or update any oral or written forward-looking statement that may be made from time to time by or on behalf of the Company.

The information contained in this Form 10-Q is not a complete description of the Company's business or the risks associated with an investment in the Company. Readers are urged to carefully review and consider the various disclosures made by the Company in this Report and in the Company's other filings with the SEC, including its Final Prospectus, that discuss the Company's business in greater detail and attempt to advise interested parties of certain risks, uncertainties and other factors that may affect the Company's business in the future.

### OVERVIEW

The Company is a leading developer of highly integrated silicon solutions that enable broadband digital data transmission to the home and within the business enterprise. The Company's products enable the high-speed transmission of data over existing communications infrastructures, most of which were not originally intended for digital data transmission. Using proprietary technologies and advanced design methodologies, the Company has designed and developed integrated circuits ("ICs") for some of the most significant broadband communications markets including cable set-top boxes, cable modems, high-speed networking, DBS (direct broadcast satellite) and terrestrial digital broadcast, and xDSL (digital subscriber line). From the Company's inception in 1991 through 1994, it was primarily engaged in product development and the establishment of strategic customer and foundry relationships. During that period, the Company generated the majority of its total revenue from development work performed for key customers. The Company began shipping its products in 1994, and subsequently the Company's total revenue has grown predominately through sales of its semiconductor products. The Company intends to continue to enter into development contracts with key customers, but expects that development revenue will constitute a decreasing percentage of its total revenue. In any given quarter, development revenue may vary significantly due to the number of outstanding contracts and the timing of contract milestones. The Company generates a small percentage of its product revenue from sales of its system level reference designs.

For a further overview of the Company's accounting policies and significant factors affecting the Company's business and operations, please refer to the additional disclosures made in the Company's Final Prospectus.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1997

The following table sets forth certain statement of operations data expressed as a percentage of total revenue:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| Revenue: | | | | |
| Product revenue | 97.3% | 87.5% | 97.4% | 82.6% |
| Development revenue | 2.7 | 12.5 | 2.6 | 17.4 |
| Total revenue | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenue | 45.1 | 43.7 | 43.5 | 45.0 |
| Gross profit | 54.9 | 56.3 | 56.5 | 55.0 |
| Operating expense: | | | | |
| Research and development | 20.7 | 59.5 | 19.2 | 59.5 |
| Selling, general and administrative | 12.3 | 28.8 | 11.9 | 26.4 |
| Total operating expense | 33.0 | 88.3 | 31.1 | 85.9 |
| Income (loss) from operations | 21.9 | (32.0) | 25.4 | (30.9) |
| Interest and other income (expense), net | 2.1 | (0.5) | 1.8 | 0.1 |
| Income (loss) before income taxes | 24.0 | (32.5) | 27.2 | (30.8) |
| Provision (benefit) for income taxes | 8.4 | (13.0) | 9.5 | (12.3) |
| Net income (loss) | 15.6% | (19.5)% | 17.7% | (18.5)% |

TOTAL REVENUE. Total revenue consists of product revenue generated principally by sales of the Company's semiconductor products and development revenue generated under development contracts with the Company's customers. Total revenue for the three months ended September 30, 1998 was $52.5 million, an increase of $43.2 million or 467% from total revenue of $9.3 million in the three months ended September 30, 1997. Total revenue for the nine months ended September 30, 1998 was $133.0 million, an increase of $113.3 million or 576% from total revenue of $19.7 million in the nine months ended September 30, 1997. The increase in total revenue was derived mainly from an increase in volume shipments of ICs for digital cable set-top boxes, high-speed networking and, to a lesser extent, for the cable modem market.

GROSS PROFIT. Gross profit represents total revenue less the cost of revenue. Cost of revenue includes the cost of purchasing the finished silicon wafers processed by independent foundries, and costs associated with assembly, test and quality assurance for those products, as well as costs of personnel and equipment associated with manufacturing support and contracted development work. Gross profit for the three months ended September 30, 1998 was $28.8 million or 54.9% of total revenue, an increase of $23.6 million as compared with gross profit of $5.2 million or 56.3% of total revenue in the three months ended September 30, 1997. Gross profit for the nine months ended September 30, 1998 was $75.1 million or 56.5% of total revenue, an increase of $64.3 million as compared with gross profit of $10.8 million or 55.0% of total revenue in the nine months ended September 30, 1997. The increase in gross profit was mainly attributable to the significant increase in the volume of product shipments. It is expected that gross profit as a percentage of total revenue will decline in future periods as volume-pricing agreements and competitive pricing strategies continue to take effect. In addition, the Company's gross margin may be affected by the introduction in the future of certain lower margin products.

RESEARCH AND DEVELOPMENT EXPENSE. Research and development expense consists primarily of salaries and related costs of employees engaged in research, design and development activities, as well as related subcontracting costs. Research and development expense for the three and nine months ended September 30, 1998 was $10.9 million and $25.5 million or 20.7% and 19.2% of total revenue, respectively, an increase of $5.4 million and $13.8 million as compared with research and development expense of $5.5 million and $11.7 million or 59.5% of total revenue for both the three and nine months ended September 30, 1997, respectively. The increase in absolute dollars was primarily due to the addition of personnel for the development of new products and the enhancement of existing products. The decline in research and development expense as a percentage of total revenue reflected a significant increase in total revenue during the three and nine months ended September 30, 1998. The Company expects that research and development expense in absolute dollars will continue to increase for the foreseeable future.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expense consists primarily of personnel-related expenses, professional fees, trade show expenses and facilities expenses. Selling, general and administrative expense for the three months ended September 30, 1998 was $6.5 million or 12.3% of total revenue, an increase of $3.8 million as compared with $2.7 million or 28.8% of total revenue for the three months ended September 30, 1997. Selling, general and administrative expense for the nine months ended September 30, 1998 was $15.8 million or 11.9% of total revenue, an increase of $10.6 million as compared with $5.2 million or 26.4% of total revenue for the nine months ended September 30, 1997. The increase in absolute dollars reflected higher personnel related costs resulting from the hiring of sales and marketing personnel, senior management and administrative personnel, and increased occupancy, legal and other professional fees, including increased expenses for litigation. The decline in selling, general and administrative expense as a percentage of total revenue reflected a significant increase in total revenue during the three and nine months ended September 30, 1998. The Company expects that selling, general and administrative expense in absolute dollars will continue to increase in the near term to support the planned expansion of the Company's operations.

DEFERRED COMPENSATION. In the nine months ended September 30, 1998, the Company recorded approximately $5.4 million of net deferred compensation in connection with the grant of employee stock options to purchase an aggregate of 1,298,050 shares of Class B Common Stock in late March 1998 (in addition to approximately $1.1 million of deferred compensation recorded in 1997). The deferred compensation represents the difference between the deemed value of the Class B Common Stock for accounting purposes and the option exercise price of such options at the date of grant. Such amount has been presented as a reduction of shareholders' equity and is being amortized ratably over the vesting period of the applicable options. The Company amortized an aggregate of $406,000 and $909,000 of deferred compensation in the three and nine months ended September 30, 1998, respectively. The remaining balance of total deferred compensation will be amortized at a rate of approximately $406,000 (pre-tax) per quarter through September 2001 and approximately $338,000 (pre-tax) for the quarters ending December 31, 2001 and March 31, 2002.

INTEREST AND OTHER INCOME (EXPENSE), NET. Interest and other income (expense), net reflects interest earned on average cash and cash equivalents and investment balances, less interest on the Company's long-term debt and capital lease obligations. Interest and other income, net for the three and nine months ended September 30, 1998 was $1.1 million and $2.4 million, respectively, compared to interest and other expense, net of $41,000 in the three months ended September 30, 1997 and interest and other income, net of $22,000 in the nine months ended September 30, 1997. The increases were principally due to increased cash balances available to invest resulting from consummation of the Company's Offering and sale of shares to Cisco Systems in April 1998.

PROVISION (BENEFIT) FOR INCOME TAXES. The Company accrues a provision for federal and state income tax at applicable statutory rates. The Company's effective tax rates were approximately 35% and 40% for the nine months ended September 30, 1998 and 1997, respectively. The difference between the Company's effective tax rates and the federal statutory tax rate of 34% was primarily related to the effect of state income taxes and research and development tax credits.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has financed its operations through a combination of sales of equity securities and cash generated by operations. At September 30, 1998, the Company had $71.8 million in working capital and $57.7 million in cash, cash equivalents and short-term investments, compared to $26.3 million in working capital and $22.1 million in cash and cash equivalents at December 31, 1997. In addition, at September 30, 1998, the Company had long-term investments of $43.2 million; at December 31, 1997, the Company had no long-term investments. At October 31, 1998, the Company had $89.9 million in cash, cash equivalents and short-term investments and $43.0 million in long-term investments. The net increase in cash, cash equivalents and investments from September 1998 was primarily due to the net proceeds from the Company's follow-on public offering in October 1998.

The Company's operating activities provided cash of $22.9 million in the nine months ended September 30, 1998, primarily as a result of net income and a growth in accounts payable, partially offset by increases in accounts receivable, inventory and other assets. In the nine months ended September 30, 1997, cash used in operating activities was $4.5 million, primarily as a result of a net loss.

In the nine months ended September 30, 1998, the Company's investing activities used cash in the amount of $58.1 million for the purchase of held-to-maturity investments and $21.4 million for the purchase of capital equipment to support its expanding operations. In the nine months ended September 30, 1997, the Company's investing activities used $4.0 million for the purchase of capital equipment. At September 30, 1998, the Company had outstanding purchase commitments for capital equipment of approximately $4.2 million.

Cash provided by financing activities was $77.2 million for the nine months ended September 30, 1998, primarily from aggregate net proceeds of $79.2 million from the Company's Offering and sale of shares to Cisco Systems in April 1998, partially offset by the repayment of $2.5 million outstanding under a bank term loan. In the nine months ended September 30, 1997, cash provided by financing activities was $26.1 million, primarily from $22.7 million in net proceeds from the issuance of preferred stock and $3.0 million in proceeds from a bank term loan.

In October 1998, the Company completed an underwritten follow-on public offering. Of the 3,450,000 shares of Class A Common Stock offered, the Company sold 470,000 shares and selling shareholders sold 2,980,000 shares, at a price of $69 per share. The Company received net aggregate proceeds from the follow-on offering of approximately $30.6 million after deducting underwriting discounts and commissions and estimated offering costs.

The Company believes that the aggregate net proceeds from the follow-on public offering, its initial public offering and sale of shares to Cisco Systems in April 1998, together with cash generated from its operations, will be sufficient to meet the Company's capital requirements for at least the next twelve months. Nonetheless, the Company may elect to sell additional equity securities or to obtain credit facilities. The Company's future capital requirements may vary materially from those now planned and will depend on many factors, including, but not limited to, the levels at which the Company maintains inventory and accounts receivable; the market acceptance of the Company's products; the levels of promotion and advertising required to launch such products and attain a competitive position in the marketplace; volume pricing concessions; the Company's business, product, capital expenditure and research and development plans and technology roadmap; capital improvements to new and existing facilities; technological advances; the response of competitors to the Company's products; and the Company's relationships with suppliers and customers. In addition, the Company may require an increase in the level of working capital to accommodate planned growth, hiring, infrastructure and facility needs, including the Company's recently executed lease of new facilities to centralize all Irvine employees and operations on one campus. Additional capital may be required for consummation of any acquisitions of businesses, products or technologies. To the extent that the funds generated by the follow-on offering, the Company's initial public offering and sale of shares to Cisco Systems, together with existing resources and cash generated from operations, are insufficient to fund the Company's future activities, the Company may need to raise additional funds through public or private financings or borrowings. No assurance can be given that additional financing will be available or that, if available, such financing can be obtained on terms favorable to the Company and its shareholders.

## YEAR 2000

The Company is aware of problems associated with computer systems as the year 2000 approaches. Many existing computer systems and applications, and other control devices use only two digits to identify a year in the date field, without considering the impact of the upcoming change in the century. Others do not correctly process "leap year" dates. As a result, such systems and applications could fail or create erroneous results unless corrected so that they can correctly process data related to the year 2000 and beyond. These problems are expected to increase in frequency and severity as the year 2000 approaches, and are commonly referred to as the "Year 2000 Problem."

The Company is continuing to assess the impact that the Year 2000 Problem may have on its operations and has identified the following four key areas of its business that may be affected:

PRODUCTS. The Company has evaluated each of its products and believes that each is substantially year 2000 compliant. However, the Company believes that it is not possible to determine whether all of its customers' products into which the Company's products are incorporated will be year 2000 compliant because the Company has little or no control over the design, production and testing of its customers' products.

INTERNAL INFRASTRUCTURE. The Year 2000 Problem could affect the systems, transaction processing computer applications and devices used by the Company to operate and monitor all major aspects of its business, including financial systems (such as general ledger, accounts payable and payroll), customer services, infrastructure, master production scheduling, materials requirement planning, networks and telecommunications systems. The Company believes that it has identified substantially all of the major systems, software applications and related equipment used in connection with its internal operations that must be modified or upgraded in order to minimize the possibility of a material disruption to its business. The Company is currently in the process of modifying and upgrading all affected systems and expects to complete this process by early 1999. Because most of the software applications used by the Company are recent versions of vendor supported, commercially available products, the Company has not incurred, and does not expect in the future to incur, significant costs to upgrade these applications as year 2000 compliant versions are released by the respective vendors.

THIRD-PARTY SUPPLIERS. The Company relies, directly and indirectly, on external systems utilized by its suppliers for the management and control of fabrication, assembly and testing of substantially all of the Company's products. The Company has sent questionnaires to the two independent foundries, Taiwan Semiconductor Manufacturing Corporation ("TSMC") and Chartered Semiconductor Manufacturing ("Chartered"), that fabricate substantially all of its semiconductor devices, and to the two subcontractors, ASAT Ltd. ("ASAT") and ST Assembly Test Services ("STATS"), that assemble and test substantially all of its products to identify and, to the extent possible, resolve issues involving the Year 2000 Problem. In addition, certain of the Company's key employees have scheduled on-site visits at the facilities of each of these suppliers in late 1998 to evaluate the systems and remediation efforts employed by each of them. The Company expects to resolve any significant Year 2000 Problems with its suppliers; however, there can be no assurance that these suppliers will resolve any or all Year 2000 Problems with their systems in a timely manner. Any failure of these third parties to resolve their Year 2000 Problems in a timely manner could result in the material disruption to the business of the Company. Any such disruption could have a material adverse effect on the Company's business, financial condition or results of operations.

FACILITY AND LABORATORY RELATED SYSTEMS. Systems such as heating, sprinklers, elevators, test equipment and security systems at the Company's facilities and labs may also be affected by the Year 2000 Problem. The Company is currently assessing the potential effect of and costs of remediating the Year 2000 Problem on its facility and lab related systems. The Company estimates that the total cost to the Company of completing any required modifications, upgrades or replacements of these systems will not have a material adverse effect on the Company's business, financial condition or results of operations.

The Company presently estimates that the total cost of addressing its year 2000 issues will be approximately $500,000. This estimate was derived utilizing numerous assumptions, including the assumption that the Company has already identified its most significant year 2000 issues and that the plans of its third party suppliers will be fulfilled in a timely manner without cost to the Company. However, there can be no guarantee that these assumptions are accurate, and actual results could differ materially from those anticipated.

The Company is currently developing contingency plans to address the year 2000 issues that may pose a significant risk to its on-going operations. Such plans could include accelerated replacement of affected equipment or software, temporary use of back-up equipment or software or the implementation of manual procedures to compensate for system deficiencies. However, there can be no assurance that any contingency plans implemented by the Company would be adequate to meet the Company's needs without materially impacting its operations, that any such plan would be successful or that the Company's results of operations would not be materially and adversely affected by the delays and inefficiencies inherent in conducting operations in an alternative manner.

RISK FACTORS

In future periods the Company's business, financial condition and results of operations may be affected in a material and adverse manner by many factors, including, but not limited to, the following:

FLUCTUATIONS IN RESULTS OF OPERATIONS. The Company's quarterly results of operations have fluctuated significantly in the past and may continue to fluctuate in the future based on a number of factors, many of which are not in the Company's control. Such factors include, but are not limited to, the volume of product sales and pricing concessions on volume sales; the timing, rescheduling or cancellation of significant customer orders; the gain or loss of a significant customer; the timing of customer qualification and industry interoperability certification of new products and the risk of non-qualification or non-certification; the rate of adoption by customers and end users of new and emerging technologies in the high-speed data networking, cable set-top box, cable modem, direct broadcast satellite ("DBS") and terrestrial digital broadcast, and digital subscriber line ("xDSL") markets; the rate of adoption and acceptance of new industry standards in the foregoing markets; the Company's ability to specify, develop, introduce and market new products and technologies on a timely basis; the qualification, availability and pricing of competing products and technologies from other vendors; fluctuations in manufacturing yields and other problems or delays in the fabrication, assembly, testing or delivery of products; uncertainties associated with international operations; the Company's ability to retain and hire key executives, technical personnel and other employees in the numbers, with the capabilities and at the compensation levels needed to implement its business and product plans; problems or delays in migrating product designs to smaller geometry processes and achieving higher levels of design integration; intellectual property disputes; changes in product and customer mix; the amount and timing of recognition of development revenue; general business conditions in the semiconductor industry and the broadband communications markets; availability of foundry capacity and raw materials; the quality of the Company's products; the timing of investments in, and the results of, research and development; the Company's ability to expand and implement its sales and marketing programs; the level of orders received that can be shipped in a quarter; the effects on operations and management of facility relocations; currency fluctuations; and general economic conditions. The Company intends to continue to increase its operating expenses in 1998 and 1999. Because a large portion of the Company's operating expense, including rent, salaries and capital lease expenses, is fixed and difficult to reduce or modify, if total revenue does not meet the Company's expectations, the effect of any revenue shortfall will be magnified by the fixed nature of these operating expenses. Based on the foregoing or other factors, it is possible that in some future periods the Company's reported or anticipated operating results will fail to meet or exceed the expectations of analysts or investors. In such event, the price of the Company's Class A Common Stock would likely be materially and adversely affected.

CUSTOMER CONCENTRATION. A relatively small number of customers have accounted for a significant portion of the Company's total revenue to date, and the Company expects that this trend will continue for the foreseeable future. In particular, sales to General Instrument and 3Com (including sales to their respective manufacturing subcontractors) accounted for approximately 33.6% and 25.9%, respectively, of total revenue in the three months ended September 30, 1998 and 32.6% and 32.0%, respectively, of total revenue in the nine months ended September 30, 1998. In 1997, sales to General Instrument and 3Com accounted for 31.9% and 14.6%, respectively, of total revenue. Moreover, sales to the Company's five largest customers (including sales to their respective manufacturing subcontractors) represented approximately 73.4% and 76.1% of the Company's total revenue in the three and nine months ended September 30, 1998, respectively, and 61.7% of total revenue in fiscal 1997. Accordingly, the Company's future results of operations will continue to be substantially dependent on the success of its largest customers and on the Company's success in selling its existing and future products to those customers in significant quantities. Any reduction or delay in sales of the Company's products to one or more of these key customers could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will retain its largest customers or that it will be able to obtain additional key customers. The loss of one or more of the Company's largest customers or the inability of the Company to successfully develop relationships with additional key customers could have a material adverse effect on the Company's business, financial condition and results of operations.

Most of the Company's customers can cease incorporating the Company's products in their own products with limited notice to the Company and with little or no penalty. The Company's agreements with its customers typically do not require minimum purchases. In addition, certain of the Company's customers offer or may offer products (designed by themselves or third parties) that compete with those offered by the Company. Many of the Company's customers have pre-existing relationships with current or potential competitors of the Company, which may affect such customers' purchasing decisions. In addition, the Company's longstanding relationship with certain of its larger customers may affect the purchasing decisions of other potential customers who compete with these customers. The Company's customers face intense competition from other manufacturers that do not use the Company's products. Further, some of the Company's customers have "most favored nation" pricing arrangements which could materially and adversely affect the Company's average selling prices and gross margins in the event of product pricing decisions that trigger such arrangements.

RAPID TECHNOLOGICAL CHANGE; DEPENDENCE ON EMERGING MARKETS AND EVOLVING STANDARDS. The semiconductor industry and the broadband communications markets are characterized by rapidly changing technology, frequent new product introductions and evolving industry standards. Substantially all of the Company's current product revenue is derived from sales of products for the high-speed networking, cable set-top box and cable modem markets. These markets are characterized by intense competition, rapid technological change and short product life cycles. In particular, the high-speed networking, cable set-top box and cable modem markets continue to undergo a period of rapid growth and consolidation. The Company's business, financial condition and results of operations would be materially and adversely affected in the event of a significant slowdown in any of these or other broadband communications markets. The Company's success will depend on the ability of its customers to develop new products and enhance existing products for the broadband communications markets and to successfully introduce and promote such products. There can be no assurance that the broadband communications markets will develop to the extent or in the timeframes anticipated by the Company. The failure of new markets to develop as anticipated or the failure of the Company's products in these markets to gain widespread acceptance could have a material adverse effect on the Company's business, financial condition and results of operations. Products for broadband communications applications are generally based on industry standards, which are continually evolving. The emergence of new industry standards could render products of the Company or its customers unmarketable or obsolete and may require the Company to incur substantial unanticipated costs to comply with any such new standards. Moreover, the Company's past sales and profitability have resulted, to a significant extent, from its ability to anticipate changes in technology and industry standards and to develop and introduce new and enhanced products. The Company's continued ability to adapt to such changes and to anticipate future standards, and the rate of adoption and acceptance of those standards, will be a significant factor in maintaining or improving the Company's competitive position and its prospects for growth. The Company has in the past invested substantial resources in emerging technologies, such as 100Base-T4 for high-speed networking, for which the market did not ultimately meet the Company's expectations. There can be no assurance that the Company will be able to anticipate the evolving standards in the semiconductor industry and, in particular, the broadband communications markets, or that the Company will be able to successfully develop and introduce new products into such markets. The failure of the Company to anticipate technological change and introduce new products that achieve market acceptance could materially and adversely affect the Company's business, financial condition and results of operations.

DEPENDENCE ON DEVELOPMENT OF NEW PRODUCTS. The Company's future success will depend upon its ability to develop new silicon solutions for existing and new markets, introduce such products in a timely and cost-effective manner and have such products selected for design into new products of leading equipment manufacturers ("design wins"). The development of these new devices is highly complex, and from time to time the Company has experienced delays in completing the development and introduction of new products. Successful product development and introduction depends on a number of factors, including, among other things, accurate prediction of market requirements and evolving standards; accurate new product definition; timely completion and introduction of new product designs; timely qualification and industry interoperability certification of the Company's products and the products into which the Company's products will be incorporated; availability of foundry capacity; achievement of high manufacturing yields; and market acceptance of the Company's and its customers' products. Furthermore, there can be no assurance that the Company will be able to introduce new products in a timely and cost-effective manner or in sufficient quantities to meet customer demand or that such products will satisfy customer requirements or achieve market acceptance. The Company's quarterly results have in the past been, and are expected in the future to continue to be, dependent upon the introduction of a relatively small number of new products and the timely completion and delivery of those products to customers. The Company's or its customers' failure to develop and introduce new products successfully and in a timely manner would materially and adversely affect the Company's business, financial condition and results of operations. The Company's new products are generally incorporated into customers' products or systems at the design stage. Achieving a design win often requires significant expenditures by the Company without any assurance of success. Moreover, design wins frequently precede the generation of volume sales, if any, by six to nine months or more. The value of any design win largely depends upon the commercial success of the customer's product and on the extent to which the design of the customer's electronic system accommodates components manufactured by the Company's competitors. There can be no assurance that the Company will continue to achieve design wins or that the products for which the Company achieves design wins will be commercially successful.

DEPENDENCE ON KEY PERSONNEL. The Company's success depends to a significant extent upon the continued service of its executive officers and other key management and technical personnel and on its ability to continue to attract, retain and motivate qualified personnel, particularly experienced mixed-signal circuit designers and systems applications engineers. The competition for such employees is intense, and the Company may not be able to attract as many qualified new personnel as it was able to employ prior to its initial public offering. The loss of the services of one or more of the Company's key employees or the Company's failure to attract, retain and motivate qualified personnel could have a material adverse effect on the Company's business, financial condition and results of operations. In particular, the loss of the services of Dr. Henry T. Nicholas, III, the co-founder, President and Chief Executive Officer of the Company, or Dr. Henry Samueli, the co-founder, Vice President of Research and Development and Chief Technical Officer of the Company, could materially and adversely affect the Company. The Company does not have any employment contracts with its employees that govern the length of their service.

COMPETITION. The broadband communications markets and semiconductor industry are intensely competitive and are characterized by rapid technological change, evolving standards, short product life cycles and price erosion. The Company competes with a number of major domestic and international suppliers of equipment in the markets for cable set-top boxes, cable modems, high-speed networking, DBS and terrestrial digital broadcast, and xDSL. This competition has resulted and may continue to result in declining average selling prices for the Company's products. The Company currently competes in the cable television set-top box market with Fujitsu, LSI Logic, Philips Electronics, Rockwell International and VLSI Technology for communication devices and with ATI Technologies, C-Cube, LSI Logic, Motorola and STMicroelectronics (formerly SGS-THOMSON) in the MPEG/graphics segment. The Company expects other major semiconductor manufacturers to enter the market as the digital broadcast television and other digital cable television markets become more established. A number of companies, including Hitachi, Libit Signal Processing, LSI Logic, Rockwell International, Stanford Telecommunications, Inc. ("STI") and Toshiba have announced that they are developing and plan to introduce MCNS/DOCSIS compliant products in 1998, which could result in significant competition in the cable modem market. In the high-speed networking market, the Company principally competes with established suppliers including Level One Communications, Lucent Technologies, National Semiconductor and Texas Instruments. The Company's principal competitors in the DBS/terrestrial broadcast market include LSI Logic, Lucent Technologies, Philips Electronics, Rockwell International, Sony, STMicroelectronics and VLSI Technology. The Company's principal competitors in the xDSL market include Alcatel, Analog Devices, Globespan, Motorola, Rockwell International and Texas Instruments. The Company also may face competition from suppliers of products based on new or emerging technologies. Many of the Company's competitors operate their own fabrication facilities and have longer operating histories and presence in key markets, greater name recognition, access to larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than the Company. As a result, such competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the promotion and sale of their products than the Company. Current and potential competitors have established or may establish financial or strategic relationships among themselves or with existing or potential customers, resellers or other third parties. Accordingly, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. In addition, existing or new competitors may in the future develop technologies that more effectively address the transmission of digital information through existing analog infrastructures at a lower cost. There can be no assurance that the Company will be able to compete successfully against current or potential competitors, or that competition will not have a material adverse effect on the Company's business, financial condition and results of operations.

MANAGEMENT OF GROWTH. The Company has experienced a period of rapid growth, expanding from 182 employees in September 1997 to 400 employees (including temporary and contract employees) in September 1998. This expansion has placed, and continues to place, significant strain on the Company's resources. To accommodate this growth, the Company will be required to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of its accounting and other internal management systems, all of which may require substantial management effort. There can be no assurance that such efforts can be accomplished successfully. The Company's rapid growth and expansion, as well as its product development and selling, general and administrative activities, have necessitated the increase in the number of employees as well as increased responsibilities for the Company's management. To support its growth, the Company recently entered into a new lease for larger facilities and is in the process of improving these facilities. These new facilities will allow all of the Company's Irvine employees and operations to be centralized on one campus. This relocation of the Company's headquarters and Irvine operations could result in a temporary disruption of the Company's operations or a temporary diversion of management attention and resources. From time to time, the Company engages in other relocations of employees or operations. If the Company sustains its growth in the future, it will need to continue to implement and improve its operational, financial and management information systems and to hire, train, motivate and manage its expanding employee base. There can be no assurance that the Company's systems, procedures and controls will be adequate to support the Company's operations. Any difficulties resulting from relocation of employees or operations or any failure to improve the Company's operational, financial and management information systems, or to hire, train, motivate or manage its employees could have a material adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE ON INDEPENDENT FOUNDRIES. The Company does not own or operate a fabrication facility, and substantially all of its semiconductor device requirements are currently supplied by two outside foundries, TSMC in Taiwan and Chartered in Singapore. There are significant risks associated with the Company's reliance on outside foundries, including the lack of ensured wafer supply; limited control over delivery schedules, quality assurance and control, manufacturing yields and production costs; and the unavailability of or delays in obtaining access to key process technologies. In addition, the manufacture of integrated circuits is a highly complex and technologically demanding process. Although the Company works closely with its foundries to minimize the likelihood of reduced manufacturing yields, the Company's foundries have from time to time experienced lower than anticipated manufacturing yields, particularly in connection with the introduction of new products and the installation and start-up of new process technologies.

The Company provides its foundries with rolling forecasts of its production requirements; however, the ability of each foundry to provide semiconductor devices to the Company is limited by the foundry's available capacity. Although the Company has entered into contractual commitments to supply specified levels of products to certain of its customers, the Company does not have a long-term volume purchase agreement or a guaranteed level of production capacity with TSMC or Chartered because the Company believes excess foundry capacity is currently available. The Company places its orders on a purchase order basis, and these foundries may allocate capacity to the production of other companies' products while reducing deliveries to the Company on short notice. In particular, foundry customers that are larger and better financed than the Company or that have long-term agreements with the Company's foundries may cause such foundries to reallocate capacity in a manner adverse to the Company. In addition, if the Company chooses to use a new foundry, several months are typically required to complete the qualification process before the Company can begin shipping products from the new foundry. Although the Company primarily utilizes two independent foundries, most of the Company's components are not manufactured at both foundries at any given time. Any inability of one of the foundries to provide the necessary components could result in significant delays and could have a material adverse effect on the Company's business, financial condition and results of operations. In the event either foundry experiences financial difficulties (whether as a result of the Asian economic crisis or otherwise) or suffers any damage or destruction to its respective facilities, or in the event of any other disruption of foundry capacity, the Company may not be able to qualify alternative manufacturing sources for existing or new products in a timely manner. Even the Company's current outside foundries would need to have certain manufacturing processes qualified in the event of disruption at another foundry, which the Company may not be able to accomplish in a timely enough manner to prevent an interruption in supply of the affected products. There can be no assurance that any existing or new foundries would be able to produce ICs with acceptable manufacturing yields. Furthermore, there can be no assurance that the Company's foundries will continue to deliver sufficient quantities of semiconductor devices on a timely basis, will not experience lower than expected manufacturing yields in the future, or will continue to have excess capacity, any of which events could materially and adversely affect the Company's business, financial condition and results of operations.

DEPENDENCE ON THIRD-PARTY SUBCONTRACTORS FOR ASSEMBLY AND TEST. Substantially all of the Company's products are assembled and tested by one of two third-party subcontractors, ASAT in Hong Kong and STATS in Singapore. The Company does not have long-term agreements with either of these suppliers and typically procures services from such suppliers on a per order basis. The availability of assembly and testing services from these subcontractors could be adversely affected in the event either subcontractor experiences financial difficulties (whether as a result of the Asian economic crisis or otherwise) or suffers any damage or destruction to its respective facilities, or in the event of any other disruption of assembly and testing capacity. As a result of this reliance on third-party subcontractors for assembly and testing of its products, the Company cannot directly control product delivery schedules, which has in the past, and could in the future, result in product shortages or quality assurance problems that could increase the costs of manufacture, assembly or testing of the Company's products. Due to the amount of time normally required to qualify assemblers and testers, if the Company is required to find alternative manufacturing assemblers or testers of its components, shipments could be delayed. Any problems associated with the delivery, quality or cost of the Company's products could have a material adverse effect on the Company's business, financial condition and results of operations.

RISKS ASSOCIATED WITH POTENTIAL ACQUISITIONS. As part of its business strategy, the Company expects to review acquisition prospects that would complement its existing product offerings, augment its market coverage or enhance its technological capabilities. Although the Company has no current understandings or agreements with respect to any material acquisitions, the Company may make acquisitions of businesses, products or technologies in the future. However, there can be no assurance that the Company will be able to locate suitable acquisition opportunities or to consummate any such acquisitions on terms and conditions acceptable to the Company. Future acquisitions by the Company could result in potentially dilutive issuances of equity securities, large one-time write-offs, the incurrence of debt and contingent liabilities or amortization expenses related to goodwill and other intangible assets, any of which could materially adversely affect the Company's results of operations or the price of the Company's Class A Common Stock. Furthermore, acquisitions entail numerous risks, including difficulties in the assimilation and integration of operations, personnel, technologies, products and the information systems of the acquired companies, diversion of management's attention from other business concerns, risks of entering geographic or business markets in which the Company has no or limited prior experience and the potential loss of key employees. Since the Company has not made any material acquisitions in the past, no assurance can be given as to the ability of the Company to successfully integrate any businesses, products, technologies or personnel that might be acquired in the future, and the failure of the Company to do so could have a material adverse effect on the Company's business, financial condition and results of operations.

RISKS ASSOCIATED WITH EXPANSION OF INTERNATIONAL BUSINESS ACTIVITIES. The Company currently procures substantially all of its manufacturing, assembly and test services from suppliers located outside the United States and may expand its manufacturing and distribution activities abroad. Approximately 15.8% of the Company's total revenue in the nine months ended September 30, 1998 was derived from sales to independent customers based outside the United States. In 1997, approximately 15.4% of the Company's total revenue was derived from sales to independent customers based outside of the United States. In addition, the Company often ships products to its domestic customers' international manufacturing divisions and subcontractors. Accordingly, the Company is subject to risks inherent in international operations, which include, but are not limited to, political, social and economic instability, trade restrictions, the imposition of governmental controls, exposure to different legal standards (particularly with respect to intellectual property), burdens of complying with a variety of foreign laws, import and export license requirements, future import and export restrictions, unexpected changes in regulatory requirements, foreign technical standards, changes in tariffs, difficulties in staffing and managing operations, difficulties in collecting receivables and potentially adverse tax consequences. In particular, certain Asian countries have recently experienced significant economic difficulties, including currency devaluation and instability, business failures and a generally depressed business climate, particularly in the semiconductor industry. In view of the Company's reliance on Asian foundries and assemblers, and the Company's expanded international operations, the Asian economic crisis may have a material adverse effect on the Company's business, financial condition and results of operations. The Company intends to expand its international operations in the near future and may establish foreign subsidiaries to conduct certain of the Company's international activities. As a result, the Company's business may be impacted to a greater degree in the future by the foregoing risks.

In addition, certain of the Company's products contain encryption or other features that are subject to various government export regulations, pursuant to which the Company has applied for export licenses. If such licenses are not granted, the Company may be unable to manufacture such products at its foreign foundries or to ship such products to certain customers located outside the United States. There can be no assurance that the Company will obtain such licenses or any licenses applied for in the future or that the failure to obtain such licenses will not have a material adverse effect on the Company's business, financial condition and results of operations. Moreover, demand for the Company's products could be adversely affected by seasonality of international sales and economic conditions in the Company's primary overseas markets. All of the Company's international sales to date have been denominated in U.S. dollars. As a result, an increase in the value of the U.S. dollar relative to foreign currencies could make the Company's products less competitive in international markets. There can be no assurance that the risks associated with the Company's international operations will not materially adversely affect the Company's business, financial condition and results of operations in the future or require the Company to modify significantly its current business practices.

RELIANCE ON STRATEGIC RELATIONSHIPS. The Company has relied on in the past, and intends to continue to form in the future, strategic relationships with certain of its customers who are technology leaders in the Company's target markets. These relationships often involve the proposed development by the Company of new products involving significant technological challenges. Since the proposed product under development may offer potential competitive advantages to the strategic partner, considerable pressure is frequently placed on the limited resources of the Company to meet development schedules. While an essential element of the Company's strategy involves establishing such relationships, these projects utilize substantial amounts of the Company's limited resources, and could materially detract from or delay the completion of other important development projects. Delays in development could impair the relationship between the Company and its strategic partners and negatively impact sales of the products under development. Moreover, there can be no assurance that customers of the Company will not develop their own solutions for products currently supplied by the Company, which could have a material adverse effect on the Company's business, financial condition and results of operations.

TRANSITION TO SMALLER GEOMETRY PROCESS TECHNOLOGIES AND HIGHER LEVELS OF DESIGN INTEGRATION. The Company continuously evaluates the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies in order to reduce costs and has commenced migration of certain products to smaller geometry processes. The Company believes that the transition of its products to increasingly smaller geometries will be important for the Company to remain competitive. The Company has in the past experienced difficulty in migrating to smaller geometry process technologies or new manufacturing processes, which has resulted and could continue to result in reduced yields, delays in product deliveries and increased expense levels. Moreover, the Company is dependent on its relationships with its foundries to migrate to smaller geometry processes successfully. No assurance can be given that the Company's future process migrations will be achieved without difficulties, delays or increased expenses. The Company's business, financial condition and results of operations could be materially and adversely affected if any such transition is substantially delayed or inefficiently implemented. As smaller geometry processes become more prevalent, the Company expects to integrate greater levels of functionality as well as customer and third-party intellectual property into its products. No assurance can be given that higher levels of design integration will not adversely affect the Company's ability to deliver new integrated products on a timely basis, or at all.

RISKS ASSOCIATED WITH INTELLECTUAL PROPERTY PROTECTION. The Company's success and future revenue growth will depend, in part, on its ability to protect its intellectual property. The Company relies primarily on patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods to protect its proprietary technologies and processes. There can be no assurance that such measures will provide meaningful protection for the Company's proprietary technologies and processes. The Company has been issued three United States patents and has filed 14 United States patent applications. There can be no assurance that any patent will issue as a result of these applications or future applications or, if issued, that any claims allowed will be sufficiently broad to protect the Company's technology. In addition, there can be no assurance that any existing or future patents will not be challenged, invalidated or circumvented, or that any right granted thereunder would provide meaningful protection to the Company. The failure of any patents to provide protection to the Company's technology would make it easier for the Company's competitors to offer similar products. In connection with its participation in the development of various industry standards, the Company may be required to agree to license certain of its patents to other parties, including its competitors, that develop products based upon the adopted standards. The Company also generally enters into confidentiality agreements with its employees and strategic partners, and generally controls access to and distribution of its documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's products, services or technology without authorization, develop similar technology independently or design around the Company's patents. In addition, effective copyright, trademark and trade secret protection may be unavailable or limited in certain foreign countries. Certain of the Company's customers have entered into agreements with the Company pursuant to which such customers have the right to use the Company's proprietary technology in the event the Company defaults in its contractual obligations, including product supply obligations, and fails to cure the default within a specified period of time. Moreover, the Company often incorporates the intellectual property of its strategic customers into its designs, and the Company has certain obligations with respect to the non-use and non-disclosure of such intellectual property. There can be no assurance that the steps taken by the Company to prevent misappropriation or infringement of the intellectual property of the Company or its customers will be successful. Moreover, litigation may be necessary in the future to enforce the Company's intellectual property rights, to protect the Company's trade secrets or to determine the validity and scope of proprietary rights of others, including its customers. Such litigation could result in substantial costs and diversion of management's efforts and other Company resources and could have a material adverse effect on the Company's business, financial condition and results of operations.

The semiconductor industry is characterized by vigorous protection of and pursuit of intellectual property rights. From time to time, the Company has received, and may continue to receive in the future, notices of claims of infringement, misappropriation or misuse of other parties' proprietary rights. The Company has received a letter from counsel for BroadCom, Inc. asserting rights in the "Broadcom" trademark and demanding that the Company cease and desist from any further use of the Broadcom name. The Company and BroadCom, Inc. have exchanged correspondence outlining their respective positions on the matter. In addition, the Company is currently involved in litigation with STI concerning the alleged infringement of one of STI's patents by several of the Company's modem products and with Sarnoff Corporation and Sarnoff Digital Communications, Inc. (collectively, "Sarnoff") concerning the alleged misappropriation and misuse of certain Sarnoff trade secrets by the Company. There can be no assurance that the Company will prevail in these actions, or that other actions alleging infringement by the Company of third-party patents, misappropriation or misuse by the Company of third-party trade secrets or the invalidity of one or more patents held by the Company will not be asserted or prosecuted against the Company, or that any assertions of infringement, misappropriation or misuse or prosecutions seeking to establish the invalidity of Company-held patents will not materially and adversely affect the Company's business, financial condition and results of operations. For example, in a patent or trade secret action, an injunction could be issued against the Company requiring that the Company withdraw certain products from the market or necessitating that certain products offered for sale or under development be redesigned. The Company has also entered into certain indemnification obligations in favor of its customers and strategic partners that could be triggered upon an allegation or finding of the Company's infringement, misappropriation or misuse of other parties' proprietary rights. Irrespective of the validity or successful assertion of such claims, the Company would likely incur significant costs and diversion of its management and personnel resources with respect to the defense of such claims, which could also have a material adverse effect on the Company's business, financial condition and results of operations. If any claims or actions are asserted against the Company, the Company may seek to obtain a license under a third party's intellectual property rights. There can be no assurance that under such circumstances a license would be available on commercially reasonable terms, if at all.

LENGTHY SALES CYCLE. The Company's sales cycle involves test and evaluation of its products by the potential customer and design of the customer's equipment to incorporate the Company's products. The sales cycle for the test and evaluation of the Company's products can range from three to six months or more, and it can take an additional six to nine months or more before a customer commences volume production of equipment that incorporates the Company's products. Because of this lengthy sales cycle, the Company may experience a delay between increasing expenses for research and development, sales and marketing, and general and administrative efforts, as well as increasing investments in inventory, and the generation of revenues, if any, from such expenditures. In addition, the delays inherent in such lengthy sales cycle raise additional risks of customer decisions to cancel or change product plans, which could result in the loss of anticipated sales by the Company. Achieving a design win provides no assurance that such customer will ultimately ship products incorporating the Company's products. The Company's business, financial condition and results of operations could be materially adversely affected if a significant customer curtails, reduces or delays orders during the Company's sales cycle or chooses not to release products employing the Company's products.

ORDER AND SHIPMENT UNCERTAINTIES. The Company's sales are generally made pursuant to individual purchase orders that may be canceled or deferred by customers on short notice without significant penalty. Cancellation or deferral of product orders could have a material adverse effect on the Company's business, financial condition and results of operations and could result in the Company holding excess inventory, which in turn could have a material adverse effect on the Company's profit margins and restrict its ability to fund its operations. The Company recognizes revenue upon shipment of products to the customer. Refusal of customers to accept shipped products or delays or difficulties in collecting accounts receivable could result in significant charges against income, which could have a material adverse effect on the Company's business, financial condition and results of operations.

PRODUCT COMPLEXITY. Products as complex as those offered by the Company frequently contain errors, defects and bugs when first introduced or as new versions are released. The Company has in the past experienced such errors, defects and bugs. Delivery of products with production defects or reliability, quality or compatibility problems could significantly delay or hinder market acceptance of such products, which could damage the Company's reputation and adversely affect the Company's ability to retain its existing customers and to attract new customers. Moreover, such errors, defects or bugs could cause problems, interruptions, delays or a cessation of sales to the Company's customers. Alleviating such problems may require significant expenditures of capital and resources by the Company. There can be no assurance that, despite testing by the Company, its suppliers or its customers, errors, defects or bugs will not be found in new products after commencement of commercial production, resulting in additional development costs, loss of, or delays in, market acceptance, diversion of technical and other resources from the Company's other development efforts, product repair or replacement costs, claims by the Company's customers or others against the Company, or the loss of credibility with the Company's current and prospective customers. Any such event could have a material adverse effect on the Company's business, financial condition and results of operations.

CYCLICALITY OF THE SEMICONDUCTOR INDUSTRY. The Company provides semiconductor devices to the broadband communications markets. The semiconductor industry is highly cyclical and subject to rapid technological change and has been subject to significant economic downturns at various times, characterized by diminished product demand, accelerated erosion of average selling prices and production overcapacity. The semiconductor industry also periodically experiences increased demand and production capacity constraints. As a result, the Company may experience substantial period-to-period fluctuations in future results of operations due to general semiconductor industry conditions, overall economic conditions or other factors.

LIMITED OPERATING HISTORY. The Company was incorporated in August 1991 but did not begin shipping products until 1994. Accordingly, the Company has a limited operating history upon which investors may evaluate the Company and its prospects. The Company's recent revenue growth may not be sustainable and should not be considered indicative of future revenue growth, if any. There can be no assurance that the Company will be profitable in any future period. The Company's prospects must be considered in light of the risks, challenges and difficulties frequently encountered by companies in their early stage of development, particularly companies in intensely competitive and rapidly evolving markets such as the semiconductor industry and the broadband communications markets. To address these risks, the Company must, among other things, successfully increase the scope of its operations, respond to competitive and technological developments, continue to attract, retain and motivate qualified personnel and continue to commercialize products incorporating innovative technologies. There can be no assurance that the Company will be successful in addressing these risks and challenges.

RISKS ASSOCIATED WITH GOVERNMENT REGULATION. The Federal Communications Commission (the "FCC") has broad jurisdiction over each of the Company's target markets. Although the Company's products are not directly subject to current regulations of the FCC or any other federal or state communications regulatory agency, much of the equipment into which the Company's products are incorporated is subject to direct government regulation. Accordingly, the effects of regulation on the Company's customers or the industries in which they operate may, in turn, adversely impact the Company's business, financial condition and results of operations. FCC regulatory policies affecting the ability of cable operators or telephone companies to offer certain services and other terms on which these companies conduct their businesses may impede sales of the Company's products. For example, the Company has in the past experienced delays when products incorporating its chips failed to comply with FCC emissions specifications. In addition, the Company's business, financial condition and results of operations may also be adversely affected by the imposition of certain tariffs, duties and other import restrictions on components that the Company obtains from non-domestic suppliers or by the imposition of export restrictions on products that the Company sells internationally. The Company may also be subject to regulation by countries other than the United States. Changes in current laws or regulations or the imposition of new laws and regulations in the United States or elsewhere, could materially and adversely affect the Company's business, financial condition and results of operations.

CONTROL BY DIRECTORS, EXECUTIVE OFFICERS AND THEIR AFFILIATES. As of October 31, 1998, the Company's directors and executive officers beneficially owned approximately 50.1% of the outstanding Common Stock and 62.8% of the total voting control of the Company. In particular, as of October 31, 1998, the two founders of the Company, Dr. Henry T. Nicholas, III and Dr. Henry Samueli, beneficially owned an aggregate of approximately 46.3% of the outstanding Common Stock and 58.3% of the total voting control of the Company. Accordingly, such persons will have sufficient voting power to control the outcome of matters (including the election of a majority of the Board of Directors, and any merger, consolidation or sale of all or substantially all of the Company's assets) submitted to the Company's shareholders for approval and will also have control over the management and affairs of the Company. As a result of such control, certain transactions may not be possible without the approval of such shareholders. These transactions include proxy contests, mergers involving the Company, tender offers, open market purchase programs or other purchases of Class A Common Stock that could give shareholders of the Company the opportunity to realize a premium over the then prevailing market price for their shares of Class A Common Stock.

STOCK PRICE VOLATILITY. The trading price of the Company's Class A Common Stock has been and will likely continue to be subject to wide fluctuations in response to quarter to quarter variations in results of operations, announcements of technological innovations or new products by the Company, its competitors or its customers, general conditions in the semiconductor, telecommunications and data communications equipment markets, changes in earnings estimates or investment recommendations by analysts, investor perceptions and expectations regarding the products, plans and strategic position of the Company, its competitors and its customers, or other events or factors. For example, since the Company's initial public offering, the Company's Class A Common Stock has traded as low as $47.00 and as high as $100.25 per share. In addition, the public stock markets have experienced extreme price and trading volume volatility, particularly in high technology sectors of the market. This volatility has significantly affected the market prices of securities of many technology companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of the Company's Class A Common Stock.

YEAR 2000 COMPLIANCE. Many existing computer systems and applications, and other control devices, use only two digits to identify a year in the date field, without considering the impact of the upcoming change in the century. Others do not correctly process "leap year" dates. As a result, such systems and applications could fail or create erroneous results unless corrected so that they can correctly process data related to the year 2000 and beyond, but there can be no assurance that such upgrades will be completed on a timely basis or without incurring substantial costs. While the Company has evaluated its products for year 2000 compliance there can be no assurance that the Company's products are or will ultimately be year 2000 compliant. In addition, the Company believes that it is not possible to determine whether all of its customers' products into which the Company's products are incorporated will be year 2000 compliant because the Company has little or no control over the design, production and testing of its customers' products. The Company relies on its systems, applications and devices in operating and monitoring all major aspects of its business, including financial systems (such as general ledger, accounts payable and payroll modules), customer services, infrastructure, embedded computer chips, networks and telecommunications equipment and end products. Although the Company is in the process of upgrading its software to address the year 2000 issue, there can be no assurance that such upgrades will be completed on a timely basis at reasonable costs, or that such upgrades will be able to anticipate all of the problems triggered by the actual impact of the year 2000. The Company also relies, directly and indirectly, on external systems of suppliers for the management and control of fabrication, assembly and testing of substantially all of the Company's products and of business enterprises such as customers, suppliers, creditors, financial organizations, and of governmental entities, both domestic and international, for accurate exchange of data. The Company could be affected through disruptions in the operation of the enterprises with which the Company interacts or from general widespread problems or an economic crisis resulting from noncompliant year 2000 systems. There can be no assurance that any contingency plans implemented by the Company would be adequate to meet the Company's needs without materially impacting its operations or that any such plans will be successful. Despite the Company's efforts to address the year 2000 impact on its internal systems and business operations, there can be no assurance that such impact will not result in a material disruption of its business or have a material adverse effect on the Company's business, financial condition or results of operations. See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000."

FUTURE CAPITAL NEEDS; UNCERTAINTY OF ADDITIONAL FUNDING. The Company believes that the aggregate net proceeds from the follow-on public offering, together with the net proceeds of the Company's initial public offering and cash generated from its operations will be sufficient to meet its capital requirements for at least the next twelve months. Nonetheless, the Company may elect to sell additional equity securities or obtain credit facilities. The Company's future capital requirements may vary materially from those now planned and will depend on many factors, including, but not limited to, the levels at which the Company maintains inventory and accounts receivable; the market acceptance of the Company's products; the levels of promotion and advertising required to launch such products and attain a competitive position in the marketplace; volume pricing concessions; the Company's business, product, capital expenditure and research and development plans and technology roadmap; capital improvements to new and existing facilities; technological advances; the response of competitors to the Company's products; and the Company's relationships with suppliers and customers. In addition, the Company may require an increase in the level of working capital to accommodate planned growth, hiring, infrastructure and facility needs, including the Company's recently executed lease of new facilities to centralize all Irvine employees and operations on one campus. Additional capital may be required for consummation of any acquisitions of businesses, products or technologies. To the extent the Company's existing resources and any future earnings are insufficient to fund the Company's activities, the Company may need to raise additional funds through public or private financings or borrowings. No assurance can be given that additional financing will be available or that if available, any such financing can be obtained on terms favorable to the Company and its shareholders. If adequate funds are not available, the Company may be required to curtail its operations significantly or to obtain funds through arrangements with strategic partners or others that may require the Company to relinquish rights to certain of its technologies or potential markets. If additional funds are raised through the issuance of equity securities, the percentage ownership of the then existing shareholders of the Company would be reduced. Such equity securities may have rights, preferences or privileges senior to those of the holders of the Company's Common Stock.

POTENTIAL EFFECT OF ANTI-TAKEOVER PROVISIONS. The Company's Articles of Incorporation and Bylaws contain provisions that may discourage or prevent certain types of transactions involving an actual or potential change in control of the Company, including transactions in which the shareholders might otherwise receive a premium for their shares over then current market prices, and may limit the ability of the shareholders to approve transactions that they may deem to be in their best interests. In addition, the Company has outstanding Class B Common Stock, which entitles each holder thereof to ten votes per share on all matters presented for a shareholder vote. The Board of Directors also has the authority to fix the rights and preferences of shares of the Company's Preferred Stock and to issue such shares without a shareholder vote. It is possible that the provisions in the Company's Articles of Incorporation and Bylaws, the existence of super voting rights held by insiders and the ability of the Board of Directors to issue Preferred Stock may have the effect of delaying, deferring or preventing a change of control of the Company without further action by the shareholders, may discourage bids for the Company's Class A Common Stock at a premium over the market price of the Class A Common Stock and may adversely affect the market price of the Class A Common Stock and the voting and other rights of the holders of Class A Common Stock.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

# PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings, claims and litigation arising in the ordinary course of business. The current status of the Company's previously reported claims and litigation is discussed in Note 8 of the "Notes to Unaudited Condensed Financial Statements" in Part I, Item 1, and under "Risks Associated with Intellectual Property Protection" in Part I, Item 2, elsewhere in this Form 10-Q, which sections are hereby incorporated by this reference. Although management believes the outcome of the Company's outstanding legal proceedings, claims and litigation will not have a material adverse effect on the Company's financial position, results of operations or liquidity, the results of litigation are inherently uncertain, and such outcome is at least reasonably possible. The Company is unable to make an estimate of the range of possible loss from outstanding litigation, and no amounts have been provided for such matters in the financial statements included in Part I.

## ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(c) SALES OF UNREGISTERED SECURITIES. During the three months ended September 30, 1998, the Company issued 21,875 shares of Class B Common Stock to a former employee for an aggregate purchase price of $24,792, upon the exercise of options to purchase shares of Class B Common Stock. The sale of Class B Common Stock made by the Company pursuant to the exercise of stock options was made pursuant to the exemptions from registration by Section 4(2) of the Securities Act of 1933.

(d) USE OF PROCEEDS FROM SALES OF REGISTERED SECURITIES. On April 21, 1998, the Company completed an initial public offering of its Class A Common Stock, $0.0001 par value. The managing underwriters in the Offering were Morgan Stanley & Co. Incorporated, BT Alex. Brown Incorporated, Deutsche Morgan Grenfell, Inc. and Hambrecht & Quist LLC (the "Underwriters"). The shares of Class A Common Stock sold in the Offering were registered under the Securities Act of 1993, as amended, on a Registration Statement on Form S-1 (the "Registration Statement") (Reg. No. 333-45619) that was declared effective by the SEC on April 16, 1998.

The Offering commenced on April 16, 1998 and terminated on April 21, 1998 after all 4,525,000 shares of Class A Common Stock registered under the Registration Statement were sold. Of the total shares sold, 3,120,000 shares were sold by the Company (including 355,000 shares sold pursuant to the exercise of the Underwriters' over-allotment option), 905,000 shares were sold by selling shareholders (including 170,000 shares sold pursuant to the exercise of the Underwriters' over-allotment option) and 500,000 shares were sold by the Company to Cisco Systems in a concurrent registered offering that was not underwritten. The purchase price for the underwritten shares was $24.00 per share and the purchase price of the shares sold to Cisco Systems was $22.32 per share. The aggregate price of the Offering amount registered was $107,760,000.

In connection with the Offering, the Company paid an aggregate of $5,241,600 in underwriting discounts and commissions to the Underwriters and paid other expenses of approximately $1,628,000. After deducting the underwriting discounts and commissions and other expenses, the Company received net aggregate proceeds from the Offering and sale of shares to Cisco Systems of approximately $79,170,400. In April 1998, the Company used $2,250,000 of the proceeds to repay the balance outstanding under its term loan with Silicon Valley Bank and through September 1998, used approximately $13.6 million for the purchase of capital equipment. The balance of the proceeds will be used for general corporate purposes, including working capital and capital purchases such as test equipment and leasehold improvements associated with the Company's planned facilities expansion. None of the Company's net proceeds of the Offering were paid directly or indirectly to any director, officer, general partner of the Company or their associates, persons owning 10 percent or more of any class of equity securities of the Company, or an affiliate of the Company.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

In October 1998, the Company completed an underwritten follow-on public offering. Of the 3,450,000 shares of Class A Common Stock offered, the Company sold 470,000 shares and selling shareholders sold 2,980,000 shares, at a price of $69 per share. The Company received net aggregate proceeds from the follow-on offering of approximately $30.6 million after deducting underwriting discounts and commissions and estimated offering costs.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

| | |
|---|---|
| 1.1 | Underwriting Agreement dated October 20, 1998 |
| 27.1 | Financial Data Schedule |

(b) Reports on Form 8-K

No such reports were filed during the three months ended September 30, 1998.

SIGNATURES

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

BROADCOM CORPORATION
A CALIFORNIA CORPORATION
(Registrant)

November 12, 1998

/s/ WILLIAM J. RUEHLE
-------------------------------------
William J. Ruehle
Vice President and Chief Financial Officer (principal financial and accounting officer)

# EXHIBIT INDEX

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 1.1 | Underwriting Agreement dated October 20, 1998 |
| 27.1 | Financial Data Schedule |

Execution Copy

3,000,000 SHARES

BROADCOM CORPORATION

CLASS A COMMON STOCK, PAR VALUE $.0001 PER SHARE

UNDERWRITING AGREEMENT

October 20, 1998

October 20, 1998

Morgan Stanley & Co. Incorporated
BT Alex. Brown Incorporated
Credit Suisse First Boston Corporation
Hambrecht & Quist LLC
Merrill Lynch, Pierce, Fenner & Smith Incorporated
c/o Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Dear Sirs and Mesdames:

Broadcom Corporation, a California corporation (the "COMPANY") co-founded by Henry T. Nicholas, III and Henry Samueli (individually a "FOUNDER" and collectively the "Founders"), proposes to issue and sell to the several Underwriters named in Schedule II hereto (the "UNDERWRITERS"), and certain shareholders of the Company (the "SELLING SHAREHOLDERS") named in Schedule I hereto severally propose to sell to the several Underwriters, an aggregate of 3,000,000 shares (the "FIRM SHARES") of the Class A Common Stock, par value $0.0001 per share, of the Company (the "CLASS A COMMON STOCK"), of which 392,500 shares are to be issued and sold by the Company and 2,607,500 shares are to be sold by the Selling Shareholders, each Selling Shareholder selling the amount set forth opposite such Selling Shareholder's name in Schedule I hereto.

The Company also proposes to issue and sell and certain Selling Shareholders propose to sell to the several Underwriters not more than an additional 450,000 shares of its Class A Common Stock (the "ADDITIONAL SHARES") if and to the extent that you, as Managers of the offering, shall have determined to exercise, on behalf of the Underwriters, the right to purchase such shares of common stock granted to the Underwriters in Section 3 hereof. The Firm Shares and the Additional Shares are hereinafter collectively referred to as the "SHARES." The shares of Class A Common Stock and Class B Common Stock, par value $0.001 per share (the "CLASS B COMMON STOCK"), of the Company to be outstanding after giving effect to the sales contemplated hereby are hereinafter referred to as the "COMMON STOCK." The Company and the Selling Shareholders are hereinafter sometimes collectively referred to as the "SELLERS."

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement, including a prospectus, relating to the Shares. The registration statement as amended at the time it becomes effective, including the information (if any) deemed to be part of the registration statement at the time of effectiveness pursuant to Rule 430A under the Securities Act of 1933, as amended (the "SECURITIES ACT"), is hereinafter referred to as the "REGISTRATION STATEMENT;" the prospectus in the form first used to confirm sales of Shares is hereinafter referred to as the "PROSPECTUS." If the Company has filed an abbreviated registration statement to register additional shares of Class A Common Stock pursuant to Rule 462(b) under the Securities Act (the "RULE 462 REGISTRATION STATEMENT"), then any reference herein to the "REGISTRATION STATEMENT" shall be deemed to include such Rule 462 Registration Statement.

1. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND FOUNDERS. The Company and, to the best of their knowledge, the Founders severally, but not jointly, represent and warrant to and agree with each of the Underwriters that:

(a) The Registration Statement has become effective under the Securities Act; no stop order suspending the effectiveness of the Registration Statement is in effect, and no proceedings for such purpose are pending before or, to the Company's knowledge, threatened by the Commission.

(b) (i) The Registration Statement, when it became effective, did not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Registration Statement and the Prospectus comply and, as amended or supplemented, if applicable, will comply in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder and (iii) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph do not apply to statements or omissions in the Registration Statement or the Prospectus based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein.

(c) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the state of California, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company.

(d) The Company has no subsidiaries.

(e) This Agreement has been duly authorized, executed and delivered by the Company.

(f) The authorized capital stock of the Company conforms as to legal matters to the description thereof set forth under the caption "Description of Capital Stock in the Prospectus."

(g) The shares of Common Stock (including the Shares to be sold by the Selling Shareholders) outstanding prior to the issuance of the Shares to be sold by the Company have been duly authorized and are validly issued, fully paid and non-assessable; except as set forth in the Prospectus, the Company does not have any outstanding options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of its capital stock or any such options, rights, convertible securities or obligations; and, except where failure to do so would not have a material adverse effect on the Company, all outstanding shares of capital stock and options and other rights to acquire capital stock have been issued in compliance with the registration and qualification provisions of all applicable securities laws and were not issued in violation of any preemptive rights, rights of first refusal or other similar rights that have not been waived.

(h) The Shares to be sold by the Company have been duly authorized and, when issued and delivered in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any preemptive rights, rights of first refusal or similar rights.

(i) The execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not contravene any provision of applicable law or the articles of incorporation or bylaws of the Company or any agreement or other instrument binding upon the Company that is material to the Company or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Company, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the Company of its obligations under this Agreement, except such as may be required by the securities or Blue Sky laws of the various states and jurisdictions or the National Association of Securities Dealers, Inc. (the "NASD") in connection with the offer and sale of the Shares.

(j) There has not occurred any material adverse change, or any development reasonably likely to result in a material adverse change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company from that set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement).

(k) There are no legal, regulatory or governmental proceedings pending or, to the Company's knowledge, threatened to which the Company is a party or to which any of the properties of the Company is subject that are required to be described in the Registration Statement or the Prospectus and are not so described or any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required.

(l) The Company has all necessary consents, authorizations, approvals, orders, certificates and permits of and from, and has made all declarations and filings with, all foreign, federal, state, local and other governmental authorities, all self-regulatory organizations and all courts and other tribunals, to own, lease, license and use its properties and assets and to conduct its business in the manner described in the Prospectus, except to the extent that the failure to obtain or file would not, singly or in the aggregate, have a material adverse effect on the Company.

(m) Each preliminary prospectus filed as part of the registration statement after September 30, 1998 as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the Securities Act, complied when so filed in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder.

(n) The Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the Prospectus, will not be an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(o) The Company (i) is in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants (collectively, "ENVIRONMENTAL LAWS"), (ii) has received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) is in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, singly or in the aggregate, have a material adverse effect on the Company.

(p) There are no costs or liabilities associated with Environmental Laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties) which would, singly or in the aggregate, have a material adverse effect on the Company.

(q) Except as described in the Prospectus, there is no legal or beneficial owner of any securities of the Company who has any rights, not effectively satisfied or waived, to require registration of any shares of capital stock of the Company in connection with the filing of the Registration Statement.

(r) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, (i) the Company has not incurred any material liability or obligation, direct or contingent, nor entered into any material transaction not in the ordinary course of business; (ii) the Company has not purchased any of its outstanding capital stock, nor declared, paid or otherwise made any dividend or distribution of any kind on its capital stock other than ordinary and customary dividends; and (iii) there has not been any material change in the capital stock, short-term debt or long-term debt of the Company, except in each case as described in the Prospectus.

(s) The Company has good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by it that is material to the business of the Company, in each case free and clear of any security interest, lien, encumbrance, claim, defect or adverse interest of any nature except such as are described in the Prospectus or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company; and any real property and buildings held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company, in each case except as described in the Prospectus.

(t) The Company owns or possesses adequate licenses or other rights (except as disclosed in the Prospectus) to use all material patents, patent rights inventions, trade secrets, copyrights, trademarks, service marks, trade names, technology and know-how currently employed or proposed to be employed by it in connection with its business as described in the Prospectus; the Company is not obligated to pay a royalty, grant a license, or provide other consideration to any third party in connection with its material patents, copyrights, trademarks, service marks, trade names, or technology other than as disclosed in the Prospectus, and, except as disclosed in the Prospectus, the Company has not received any notice of infringement or conflict with (and the Company does not know of any infringement or conflict with) asserted rights of others with respect to any patents, patent rights, inventions, trade secrets, copyrights, trademarks, service marks, trade names, technology or know-how which could result in any material adverse effect upon the Company; and, except as disclosed in the Prospectus, the discoveries, inventions, products or processes of the Company referred to in the Prospectus do not, to the knowledge of the Company, infringe or conflict with any right or patent of any third party, or any discovery, invention, product or process which is the subject of a patent application filed by any third party known to the Company, which could have a material adverse effect on the Company. The University of California, Los Angeles, does not possess any rights to the Company's patents, copyrights, trademarks, service marks, trade names, or technology which, if exercised, could have a material adverse effect on the ability of the Company to conduct its business in the manner described in the Prospectus.

(u) No material labor dispute with the employees of the Company exists, except as described in the Prospectus, or, to the knowledge of the Company, is imminent; and the Company is not aware of any existing, threatened or imminent labor disturbance by the employees of any of its principal suppliers, manufacturers or contractors that could have a material adverse effect on the Company.

(v) The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged; the Company has not been refused any insurance coverage sought or applied for during the previous four years; and the Company does not have any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a material adverse effect on the Company, except as described in the Prospectus.

(w) The Company possesses all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct its business, except where the failure to possess such certificates, authorizations or permits would not have a material adverse effect on the Company, and the Company has not received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the Company, except as described the Prospectus

(x) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that (1) transactions are executed in accordance with management's general or specific authorizations; (2) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (3) access to material assets is permitted only in accordance with management's general or specific authorization; and (4) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(y) Ernst & Young LLP are, and during the periods covered by their report included in the Registration Statement were, independent certified public accountants with respect to the Company within the meaning of the Securities Act.

(z) The Nasdaq Stock Market, Inc. has approved the Shares to be issued by the Company for listing on the Nasdaq National Market.

(aa) The section of the Prospectus entitled "Shares Eligible for Future Sale" properly describes all agreements (collectively, the "LOCK-UP AGREEMENTS") that restrict the holders thereof from selling, making any short sale of, granting any option for the purchase of, or otherwise transferring or disposing of, any of such shares of Common Stock, or any such securities convertible into or exercisable or exchangeable for Common Stock, for the respective periods of time designated in such Lock-Up Agreements, without the prior written consent of the Company or Morgan Stanley & Co. Incorporated, and all of such Lock-up Agreements are valid and binding.

2. REPRESENTATIONS AND WARRANTIES OF THE SELLING SHAREHOLDERS. Each of the Selling Shareholders, including the Founders, represents and warrants to and agrees with each of the Underwriters that:

(a) This Agreement has been duly authorized, executed and delivered by or on behalf of such Selling Shareholder.

(b) The execution and delivery by such Selling Shareholder of, and the performance by such Selling Shareholder of its obligations under, this Agreement, the Custody Agreement and Power of Attorney signed by such Selling Shareholder and U.S. Stock Transfer Corporation, as Custodian, relating to the deposit of the Shares to be sold by such Selling Shareholder and appointing certain individuals as such Selling Shareholder's attorneys-in-fact to the extent set forth therein, relating to the transactions contemplated hereby and by the Registration Statement (the "CUSTODY AGREEMENT AND POWER OF ATTORNEY") will not contravene any provision of applicable law, or the articles of incorporation or by-laws of such Selling Shareholder (if such Selling Shareholder is a corporation), or any agreement or other instrument binding upon such Selling Shareholder or any judgment, order or decree of any governmental body, agency or court having jurisdiction over such Selling Shareholder, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by such Selling Shareholder of its obligations under this Agreement or the Custody Agreement and Power of Attorney of such Selling Shareholder, except such as may be required by the securities or Blue Sky laws of the various states in connection with the offer and sale of the Shares.

(c) Such Selling Shareholder has, and on the Closing Date will have, valid title to the Shares to be sold by such Selling Shareholder and the legal right and power, and all authorization and approval required by law, to enter into this Agreement and the Custody Agreement and Power of Attorney and to sell, transfer and deliver the Shares to be sold by such Selling Shareholder.

(d) The Shares to be sold by such Selling Shareholder pursuant to this Agreement that are outstanding as of the date hereof have been duly authorized and are validly issued, fully paid and non-assessable, and the Shares to be sold by such Selling Shareholder that are issuable upon exercise of outstanding options, will be, upon receipt by the Company of the exercise price thereof, validly issued, fully paid and non-assessable.

(e) The Custody Agreement and Power of Attorney has been duly authorized, executed and delivered by such Selling Shareholder and is a valid and binding agreement of such Selling Shareholder.

(f) Delivery of the Shares to be sold by such Selling Shareholder pursuant to this Agreement will pass title to such Shares free and clear of any security interests, claims, liens, equities and other encumbrances.

(g) All information furnished in writing by or on behalf of such Selling Shareholder for use in the Registration Statement is, and on the Closing Date will be, true, correct, and complete, and does not, and on the Closing Date will not, contain any untrue statement of a material fact or omit to state any material fact necessary to make such information not misleading, and all information furnished in writing by or on behalf of such Selling Shareholder for use in the Prospectus is, and on the Closing Date will be, true, correct, and complete, and does not, and on the Closing Date will not, contain any untrue statement of a material fact or omit to state any material fact necessary to make such information not misleading in the light of the circumstances under which they were made.

3. AGREEMENTS TO SELL AND PURCHASE. Each Seller, severally and not jointly, hereby agrees to sell to the several Underwriters, and each Underwriter, upon the basis of the representations and warranties herein contained, but subject to the conditions hereinafter stated, agrees, severally and not jointly, to purchase from such Seller at $66.24 a share (the "PURCHASE PRICE") the number of Firm Shares (subject to such adjustments to eliminate fractional shares as you may determine) that bears the same proportion to the number of Firm Shares to be sold by such Seller as the number of Firm Shares set forth in Schedule II hereto opposite the name of such Underwriter bears to the total number of Firm Shares.

On the basis of the representations and warranties contained in this Agreement, and subject to its terms and conditions, the Company agrees to issue and sell and certain Selling Shareholders named in Schedule III hereto severally agree to sell to the Underwriters the Additional Shares, of which 77,500 shares are to be issued and sold by the Company and 372,500 shares are to be sold by such Selling Shareholders, each such Selling Shareholder selling the amount set forth opposite such Selling Shareholder's name in Schedule III hereto, and the Underwriters shall have a one-time right to purchase, severally and not jointly, up to 450,000 Additional Shares at the Purchase Price. If you, on behalf of the Underwriters, elect to exercise such option, you shall so notify the Company in writing not later than 30 days after the date of this Agreement, which notice shall specify the number of Additional Shares to be purchased by the Underwriters and the date on which such shares are to be purchased. Such date may be the same as the Closing Date (as defined below) but not earlier than the Closing Date nor later than ten business days after the date of such notice. Additional Shares may be purchased as provided in Section 5 hereof solely for the purpose of covering over-allotments made in connection with the offering of the Firm Shares. If any Additional Shares are to be purchased, each Underwriter agrees, severally and not jointly, to purchase the number of Additional Shares (subject to such adjustments to eliminate fractional shares as you may determine) that bears the same proportion to the total number of Additional Shares to be purchased as the number of Firm Shares set forth in Schedule II hereto opposite the name of such Underwriter bears to the total number of Firm Shares.

Each Seller hereby agrees that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the Underwriters, it will not (x) in the case of the Company, during the period ending 90 days after the date of the Prospectus, and (y) in the case of each other Seller, during the period specified in the Lock-up Agreements between the Seller and Morgan Stanley & Co. Incorporated (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the sale of any Shares to the Underwriters to be sold hereunder, (B) the issuance by the Company of shares of Common Stock upon the exercise of an option or warrant or the conversion of a security outstanding, on the date hereof, of which the Underwriters have been advised in writing or (C) transactions by any person other than the Company relating to shares of Common Stock or other securities acquired in open market transactions after the completion of the offering of the Shares. In addition, each Selling Shareholder agrees that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the Underwriters, it will not, during the period ending 90 days after the date of the Prospectus, make any demand for, or exercise any right with respect to, the registration of any shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock.

4. TERMS OF PUBLIC OFFERING. The Sellers are advised by you that the Underwriters propose to make a public offering of their respective portions of the Shares as soon after the Registration Statement and this Agreement have become effective as in your judgment is advisable. The Sellers are further advised by you that the Shares are to be offered to the public initially at $69.00 a share (the "PUBLIC OFFERING PRICE") and to certain dealers selected by you at a price that represents a concession not in excess of $1.66 a share under the Public Offering Price, and that any Underwriter may allow, and such dealers may reallow, a concession, not in excess of $0.10 a share, to any Underwriter or to certain other dealers.

5. PAYMENT AND DELIVERY. Payment for the Firm Shares to be sold by each Seller shall be made to such Seller in federal or other funds immediately available in New York City against delivery of such Firm Shares for the respective accounts of the several Underwriters at 10:00 a.m., New York City time, on October 26, 1998, or at such other time on the same or such other date, not later than November 2, 1998, as shall be designated in writing by you. The time and date of such payment are hereinafter referred to as the "CLOSING DATE."

Payment for any Additional Shares shall be made to each Seller in federal or other funds immediately available in New York City against delivery of such Additional Shares for the respective accounts of the several Underwriters at 10:00 a.m., New York City time, on the date specified in the notice described in Section 3 or at such other time on the same or on such other date, in any event not later than December 3, 1998, as shall be designated in writing by you. The time and date of such payment are hereinafter referred to as the "OPTION CLOSING DATE."

Certificates for the Firm Shares and Additional Shares shall be in definitive form and registered in such names and in such denominations as you shall request in writing not later than one full business day prior to the Closing Date or the Option Closing Date, as the case may be. The certificates evidencing the Firm Shares and Additional Shares shall be delivered to you on the Closing Date or the Option Closing Date, as the case may be, for the respective accounts of the several Underwriters, with any transfer taxes payable in connection with the transfer of the Shares to the Underwriters duly paid, against payment of the Purchase Price therefor.

6. CONDITIONS TO THE UNDERWRITERS' OBLIGATIONS. The obligations of the Sellers to sell the Shares to the Underwriters and the several obligations of the Underwriters to purchase and pay for the Shares on the Closing Date are subject to the condition that the Registration Statement shall have become effective not later than 3:00 p.m. (New York City time) on the date hereof.

The several obligations of the Underwriters hereunder are subject to the following further conditions:

(a) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date:

(i) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded any of the Company's securities by any "nationally recognized statistical rating organization," as such term is defined for purposes of Rule 436(g)(2) under the Securities Act; and

(ii) there shall not have occurred any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company from that set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement) that, in your judgment, is material and adverse and that makes it, in your judgment, impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus.

(b) The Underwriters shall have received on the Closing Date a certificate, dated the Closing Date and signed by the chief executive officer and the chief financial officer of the Company, to the effect set forth in Section 6(a)(i) above and to the effect that the representations and warranties of the Company contained in this Agreement are true and correct as of the Closing Date and that the Company has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or before the Closing Date.

The officers signing and delivering such certificate may rely upon the best of their knowledge as to proceedings threatened.

(c) The Underwriters shall have received on the Closing Date a certificate, dated the Closing Date and signed by the Selling Shareholders (or by their attorney-in-fact on their behalf), to the effect that the representations and warranties of the Selling Shareholders contained in this Agreement are true and correct as of the Closing Date and that each Selling Shareholder has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or before the Closing Date.

(d) The Underwriters shall have received on the Closing Date an opinion of Brobeck, Phleger & Harrison LLP, outside counsel for the Company, dated the Closing Date, to the effect that:

(i) the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the state of California, has the corporate power and authority to own its property and to conduct its business as described in the Registration Statement and Prospectus (and any amendment or supplement thereto) and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to so qualify or be in good standing would not have a material adverse effect on the financial condition, business, properties or results of operations of the Company;

(ii) to such counsel's knowledge, the Company does not own or control, directly or indirectly, any corporation, association or other entity;

(iii) the authorized capital stock of the Company as of the date of the Prospectus is as set forth in the description thereof set forth under the caption "Description of Capital Stock" in the Prospectus;

(iv) the shares of Common Stock (including the Shares to be sold by the Selling Shareholders) outstanding prior to the issuance of the Shares to be sold by the Company have been duly authorized and are validly issued and non-assessable and, to such counsel's knowledge, fully paid; and, to such counsel's knowledge, except as set forth in the Prospectus, the Company does not have outstanding any options to purchase, or any preemptive rights arising under the Company's Restated and Amended Articles of Incorporation (the "Articles") or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of the Company's capital stock or any such options, rights, convertible securities or obligations; and all outstanding shares of capital stock were not issued in violation of any preemptive rights or, to such counsel's knowledge, rights of first refusal of the Company or other similar rights.

(v) the Shares to be sold by the Company have been duly authorized and, when issued and delivered in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to (A) any preemptive rights arising under the Articles or the California General Corporation Law or (B) to such counsel's knowledge, any similar rights that entitle or will entitle any person to acquire any shares of capital stock of the Company upon the issuance and sale of the Shares by the Company;

(vi) this Agreement has been duly authorized, executed and delivered by the Company;

(vii) the execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not (A) contravene the Articles or bylaws of the Company or (B) to such counsel's knowledge, constitute a breach or default under any agreement or other instrument binding upon the Company that is an exhibit to the Registration Statement, or (C) result in any violation of an existing provision of California or federal law or regulation (other than applicable state securities and Blue Sky laws, as to which such counsel need express no opinion) or any ruling, judgment, order or decree known to such counsel and applicable to the Company or any of its properties;

(viii) no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the Company of its obligations under this Agreement, except (A) as have been obtained under the Securities Act or the Exchange Act, or (B) such as may be required by the securities or Blue Sky laws governing the purchase and distribution of the Shares, as to which such counsel need express no opinion;

(ix) the statements (A) in the Prospectus under the captions "Risk Factors--Shares Eligible for Future Sale," "Business--Customers and Strategic Relationships (except that such counsel need express an opinion only as to the second paragraph in such section)," "Management--Employee Benefit Plans (to the extent of the description of the terms of the employee benefit plans)," "Management--Limitation of Liability and Indemnification Matters," "Certain Transactions" (except that such counsel need express an opinion only as to the paragraph entitled "Development Agreement with Cisco Systems"), "Description of Capital Stock" and "Shares Eligible for Future Sale" and (B) in the Registration Statement in Items 14 and 15, in each case insofar as such statements constitute summaries of the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents and proceedings and fairly summarize the matters referred to therein;

(x) to such counsel's knowledge, (A) there are no legal, regulatory or governmental proceedings pending or threatened to which the Company is a party or to which any of the properties of the Company is subject that are required to be described in the Registration Statement or the Prospectus and are not so described or of any California or federal statutes or regulations, and (B) there are no agreements, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required, as the case may be;

(xi) the Company is not an "investment company" as such term is defined in the Investment Company Act of 1940, as amended;

(xii) to such counsel's knowledge, except as described in the Prospectus, no holder of any securities of the Company or any other person has the right, contractual or otherwise, to cause the Company to sell or otherwise issue them, or to permit them to underwrite the sale of, any of the Shares or the right to have any Common Stock or other securities of the Company included in the Registration Statement or the right, as a result of the filing of the Registration Statement, to require the Company to register under the Securities Act any shares of Common Stock or other securities of the Company, any registration rights in connection with the offering contemplated hereby have been waived;

(xiii) such counsel is of the opinion that the Registration Statement and Prospectus (except for financial statements, including notes and the schedules thereto and the other financial and statistical data included therein, as to which such counsel need not express any opinion) comply as to form in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder;

(xiv) such counsel (A) has no reason to believe that (other than the financial statements, including the notes and schedules thereto and the other financial and statistical data included therein, as to which such counsel need not express any belief) at the time the Registration Statement became effective, the Registration Statement contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (B) has no reason to believe that (other than the financial statements, including the notes and schedules thereto and other financial and statistical data derived therefrom, as to which such counsel need not express any belief) the Prospectus, on the date hereof, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(xv) to such counsel's knowledge: (A) the Registration Statement has become effective under the Securities Act, no stop order proceedings with respect thereto have been instituted or are pending, threatened or contemplated under the Securities Act; and (B) any required filing of the Prospectus and any supplement thereto pursuant to Rule 424(b) under the Securities Act has been made in the manner and within the time period required by such Rule 424(b); and

(xvi) the Shares to be sold under this Agreement to the Underwriters have been approved for quotation on the Nasdaq National Market, upon issuance as contemplated by this Agreement.

(e) The Underwriters shall have received on the Closing Date an opinion of Brobeck, Phleger & Harrison LLP, counsel for the Selling Shareholders, dated the Closing Date, to the effect that:

(i) this Agreement has been duly authorized, executed and delivered by or on behalf of each of the Founders;

(ii) the execution and delivery by each Founder of, and the performance by such Founder of its obligations under, this Agreement and the Custody Agreement and Power of Attorney of such Founder will not (A) result in a violation of any existing provision of applicable California or federal law (other than applicable state securities and Blue Sky laws, as to which such counsel need express no opinion) or any judgment, order or decree known to such counsel and applicable to the Founders and any of its properties, or, (B) to such counsel's knowledge, constitute a breach or default under any material agreement or other instrument binding upon such Founder;

(iii) no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by such Founder of its obligations under this Agreement or the Custody Agreement and Power of Attorney of such Founder, except such as may be required by the securities or Blue Sky laws of the various states in connection with offer and sale of the Shares;

(iv) each of the Founders is the sole registered owner of the Shares to be sold by such Founder and has the right, power and authority to enter into this Agreement and the Custody Agreement and Power of Attorney of such Founder and to sell, transfer and deliver the Shares to be sold by such Founder;

(v) the Custody Agreement and the Power of Attorney of each Founder has been duly authorized, executed and delivered by such Founder and are valid and binding agreements of such Founder;

(vi) upon the delivery of and payment for the Shares as contemplated in the Underwriting Agreement, each of the Underwriters will receive valid marketable title to the Shares purchased by it from such Founder, free of any adverse claim, assuming the Underwriters purchase such Shares for value, in good faith and without notice of any adverse claim, as such terms are defined in the Uniform Commercial Code in effect in the State of California.

(vii) as to each Selling Shareholder who is not a Corporate Selling Shareholder (as defined below) or a Founder (each, an "Individual Selling Shareholder"), to such counsel's knowledge, this Agreement has been duly authorized, executed and delivered by or on behalf of each of the Individual Selling Shareholders;

(viii) to such counsel's knowledge, the execution and delivery by each Individual Selling Shareholder of, and the performance by such Individual Selling Shareholder of its obligations under, this Agreement and the Custody Agreement and Power of Attorney of such Individual Selling Shareholder will not (A) contravene any material provision of applicable California or federal law (other than applicable state securities and Blue Sky laws, as to which such counsel need express no opinion) or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Individual Selling Shareholder or, (B) contravene any material agreement or other instrument binding upon such Individual Selling Shareholder;

(ix) to such counsel's knowledge, no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by such Individual Selling Shareholder of its obligations under this Agreement or the Custody Agreement and Power of Attorney of such Individual Selling Shareholder, except such as may be required by the securities or Blue Sky laws of the various states in connection with offer and sale of the Shares;

(x) to such counsel's knowledge, each of the Individual Selling Shareholders is the sole registered owner of the Shares to be sold by such Individual Selling Shareholder and has the right, power and authority to enter into this Agreement and the Custody Agreement and Power of Attorney of such Individual Selling Shareholder and to sell, transfer and deliver the Shares to be sold by such Individual Selling Shareholder;

(xi) to such counsel's knowledge, the Custody Agreement and the Power of Attorney of each Individual Selling Shareholder has been duly authorized, executed and delivered by such Individual Selling Shareholder and are valid and binding agreements of such Individual Selling Shareholder;

(xii) upon the delivery of and payment for the Shares as contemplated in the Underwriting Agreement, each of the Underwriters will receive valid marketable title to the Shares purchased by it from such Individual Selling Shareholder, free of any adverse claim, assuming the Underwriters purchase such Shares for value, in good faith and without notice of any adverse claim, as such terms are defined in the Uniform Commercial Code in effect in the State of California.

(f) The Underwriters shall have received on the Closing Date an opinion of Fulwider, Patton, Lee & Utecht, special patent counsel to the Company, dated the Closing Date, to the effect that:

(i) the Company is listed in the records of the United States Patent and Trademark Office ("PTO") as the holder of record of the patent applications listed in Exhibit A to such counsel's opinion (the "PATENT APPLICATIONS"). Three of such Patent Applications, listed on Exhibit B to such counsel's opinion, have been allowed or indicated as containing allowable subject matter. To such counsel's knowledge, written assignments to the Company of all ownership interests in the Patent Applications have been duly authorized, executed and delivered by all of the inventors in accordance with their terms. To such counsel's knowledge, there is no claim of any party other than the Company to any ownership interest or lien with respect to any of the Patent Applications;

(ii) the statements in the Prospectus under the captions "Risk Factors -- Risks Associated With Intellectual Property Protection" and "Business -Intellectual Property," to such counsel knowledge, insofar as such statements relate to the Patent Applications or any legal matters, documents and proceedings relating thereto fairly present the information called for with respect to such legal matters, documents and proceedings and fairly summarize the matters referred to therein;

(iii) to such counsel's knowledge, other than in connection with assertions or inquiries made by patent office examiners in the ordinary course of the prosecution of the Company's Patent Applications, there is not pending or threatened in writing any action, suit, proceeding or claim by others (A) challenging the validity or scope of the Patent Applications or any other material patent or patent applications held by or licensed to the Company, or (B) other than as disclosed to the Underwriters in writing, asserting that any patent is infringed by the activities of the Company described in the Prospectus or by the manufacture, use or sale of any of the Company's products or other items made and used according to the Patent Applications held by or licensed to the Company; and

(iv) to such counsel's knowledge, there is not pending or threatened in writing any action, suit, proceeding or claim by the Company asserting infringement on the part of any third party of the Patent Applications or any other patents or patent applications held by or licensed to the Company.

(g) The Underwriters shall have received on the Closing Date an opinion of Irell & Manella LLP, special litigation counsel to the Company, dated the Closing Date, to the effect that:

(i) the statements in the Prospectus under the caption "Business -Legal Proceedings," to such counsel's knowledge, insofar as such statements relate to any legal matters, documents and proceedings relating thereto fairly present the information called for with respect to such legal matters, documents and proceedings and fairly summarize the matters referred to therein; and such counsel concurs with the Company's belief as stated in the fifth sentence of the first paragraph of "Business--Legal Proceedings."

(h) The Underwriters shall have received on the Closing Date an opinion of Wilson Sonsini Goodrich & Rosati, counsel for the Underwriters, dated the Closing Date, covering the matters referred to in Sections 6(d)(v), 6(d)(vi), 6(d)(ix) (but only as to the statements in the Prospectus under "Description of Capital Stock" and "Underwriters"), 6(d)(xiii) and 6(d)(xiv) above.

With respect to Section 6(d)(xiii) above, Brobeck, Phleger & Harrison LLP and Wilson Sonsini Goodrich & Rosati may state that their belief is based upon their participation in the preparation of the Registration Statement and Prospectus and any amendments or supplements thereto and review and discussion of the contents thereof, but are without independent check or verification, except as specified. With respect to Section 6(e) above, Brobeck, Phleger & Harrison LLP may rely upon an opinion or opinions of counsel for any Selling Shareholders and, with respect to factual matters and to the extent such counsel deems appropriate, upon the representations of each Selling Shareholder contained herein and in the Custody Agreement and Power of Attorney of such Selling Shareholder and in other documents and instruments; provided that (A) each such counsel for the Selling Shareholders is satisfactory to your counsel, (B) a copy of each opinion so relied upon is delivered to you and is in form and substance satisfactory to your counsel, (C) copies of such Custody Agreements and Powers of Attorney and of any such other documents and instruments shall be delivered to you and shall be in form and substance satisfactory to your counsel and Brobeck, Phleger & Harrison LLP shall state in their opinion that they are justified in relying on each such other opinion.

The opinions of Brobeck, Phleger & Harrison LLP described in Sections 6(d) and 6(e) above (and any opinions of counsel for any Selling Shareholder referred to in the immediately preceding paragraph) and the opinions of Fulwider, Patton, Lee & Utecht and Irell & Manella LLP described in Sections 6(f) and 6(g) above shall be rendered to the Underwriters at the request of the Company or one or more of the Selling Shareholders, as the case may be, and shall so state therein.

(i) The Underwriters shall have received, on each of the date hereof and the Closing Date, a letter dated the date hereof or the Closing Date, as the case may be, in form and substance satisfactory to the Underwriters, from Ernst & Young LLP, independent public accountants, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus; provided, however, that the letter delivered on the Closing Date shall use a "cut-off date" not earlier than the date hereof.

(j) The Underwriters shall have received on the Closing Date opinions of counsel for each of Intel Corporation and Scientific-Atlanta, Inc. (the "Corporate Selling Shareholders"), dated the Closing Date, to the effect that:

(i) this Agreement has been duly authorized by such Corporate Selling Shareholder and, when executed on such Corporate Selling Shareholder's behalf by one of the attorneys-in-fact named in the Custody Agreement and Power of Attorney, will be duly executed and delivered by or on behalf of such Corporate Selling Shareholder;

(ii) the execution and delivery by such Corporate Selling Shareholder of, and the performance by such Corporate Selling Shareholder of its obligations under, this Agreement and the Custody Agreement and Power of Attorney of such Corporate Selling Shareholder will not (A) result in a violation of any existing provision of applicable California or federal law (other than applicable state securities and Blue Sky laws, as to which such counsel need express no opinion) or any judgment, order or decree known to such counsel and applicable to such Corporate Selling Shareholder and any of its properties, (B) conflict with, or result in a breach or other violation of any of the terms, conditions or provisions of such Corporate Selling Shareholder's Certificate of Incorporation or Bylaws, or (C) to such counsel's knowledge, constitute a breach or default under any material agreement or other instrument binding upon such Corporate Selling Shareholder;

(iii) no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by such Corporate Selling Shareholder of its obligations under this Agreement or the Custody Agreement and Power of Attorney of such Corporate Selling Shareholder, except such as may be required by the securities or Blue Sky laws of the various states in connection with offer and sale of the Shares;

(iv) such Corporate Selling Shareholder is the sole registered owner of the Shares to be sold by such Corporate Selling Shareholder and has the right, power and authority to enter into this Agreement and the Custody Agreement and Power of Attorney of such Corporate Selling Shareholder and to sell, transfer and deliver the Shares to be sold by such Corporate Selling Shareholder;

(v) the Custody Agreement and Power of Attorney of such Corporate Selling Shareholder has been duly authorized, executed and delivered by such Corporate Selling Shareholder and is a valid and binding agreement of such Corporate Selling Shareholder;

(vi) upon the delivery of and payment for the Shares as contemplated in the Underwriting Agreement, each of the Underwriters will receive valid marketable title to the Shares purchased by it from such Corporate Selling Shareholder, free of any adverse claim, assuming the Underwriters purchase such Shares for value, in good faith and without notice of any adverse claim, as such terms are defined in the Uniform Commercial Code in effect in the State of California.

(k) The Lock-up Agreements between you and all officers and directors of the Company and certain shareholders relating to sales and certain other dispositions of shares of Common Stock or certain other securities, delivered to you on or before the date hereof, shall be in full force and effect on the Closing Date.

All of the agreements, opinions, certificates and letters mentioned above or elsewhere in this Agreement shall be deemed in compliance with the provisions hereof only if Wilson Sonsini Goodrich & Rosati, counsel for the Underwriters, shall be reasonably satisfied that they comply in form and scope.

The several obligations of the Underwriters to purchase Additional Shares hereunder are subject to the delivery to you on the Option Closing Date of such documents as you may reasonably request with respect to the good standing of the Company, the due authorization and issuance of the Additional Shares, other matters related to the issuance of the Additional Shares and an opinion or opinions of Brobeck Phleger and Harrison LLP in form and substance satisfactory to Wilson Sonsini Goodrich & Rosati, counsel for the Underwriters.

7 COVENANTS OF THE COMPANY. In further consideration of the agreements of the Underwriters herein contained, the Company covenants with each Underwriter as follows:

(a) To furnish to you, without charge, six signed copies of the Registration Statement (including exhibits thereto) and for delivery to each other Underwriter a conformed copy of the Registration Statement (without exhibits thereto) and to furnish to you in New York City, without charge on the business day following the date of this Agreement and during the period mentioned in Section 7(c) below, as many copies of the Prospectus and any supplements and amendments thereto or to the Registration Statement as you may reasonably request.

(b) Before amending or supplementing the Registration Statement or the Prospectus, to furnish to you a copy of each such proposed amendment or supplement and not to file any such proposed amendment or supplement to which you reasonably object, and to file with the Commission within the applicable period specified in Rule 424(b) under the Securities Act any prospectus required to be filed pursuant to such Rule.

(c) If, during such period after the first date of the public offering of the Shares as in the reasonable opinion of counsel for the Underwriters the Prospectus is required by law to be delivered in connection with sales by an Underwriter or dealer, any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances when the Prospectus is delivered to a purchaser, not misleading, or if, in the reasonable opinion of counsel for the Underwriters, it is necessary to amend or supplement the Prospectus to comply with applicable law, forthwith to prepare, file with the Commission and furnish, at its own expense, to the Underwriters and to the dealers (whose names and addresses you will furnish to the Company) to which Shares may have been sold by you on behalf of the Underwriters and to any other dealers upon request, either amendments or supplements to the Prospectus so that the statements in the Prospectus as so amended or supplemented will not, in the light of the circumstances when the Prospectus is delivered to a purchaser, be misleading or so that the Prospectus, as amended or supplemented, will comply with law.

(d) To endeavor to qualify the Shares for offer and sale under the securities or Blue Sky laws of such jurisdictions as you shall reasonably request.

(e) To make generally available to the Company's security holders and to you as soon as practicable an earnings statement covering the twelve-month period ending June 30, 1999 that satisfies the provisions of Section 11(a) of the Securities Act and the rules and regulations of the Commission thereunder.

(f) to (i) enforce the terms of each Lock-up Agreement and (ii) issue stop-transfer instructions to the transfer agent for the Common Stock with respect to any transaction or contemplated transaction that would constitute a breach of or default under the applicable Lock-up Agreement. In addition, except with the prior written consent of Morgan Stanley & Co. Incorporated, the Company agrees until the expiration of the Lock-up Agreements (i) not to amend or terminate, or waive any right under, any Lock-up Agreement, or take any other action that would directly or indirectly have the same effect as an amendment or termination, or waiver of any right under, any Lock-up Agreement, that would permit any holder of shares of Common Stock, or securities convertible into or exercisable or exchangeable for Common Stock, to sell, make any short sale of, grant any option for the purchase of, or otherwise transfer or dispose of, any of such shares of Common Stock or other securities prior to the expiration of 90 days after the date of the Prospectus, and (ii) not to consent to any sale, short sale, grant of an option for the purchase of, or other disposition or transfer of shares of Common Stock, or securities convertible into or exercisable or exchangeable for Common Stock, subject to a Lock-up Agreement.

8 EXPENSES. Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, the Company agrees to pay or cause to be paid all expenses incident to the performance of the Sellers' obligations under this Agreement, including: (i) the fees, disbursements and expenses of the Company's counsel, the Company's accountants and counsel for the Selling Shareholders in connection with the registration and delivery of the Shares under the Securities Act and all other fees or expenses in connection with the preparation and filing of the Registration Statement, any preliminary prospectus, the Prospectus and amendments and supplements to any of the foregoing, including all printing costs associated therewith, and the mailing and delivering of copies thereof to the Underwriters and dealers, in the quantities hereinabove specified, (ii) all costs and expenses related to the transfer and delivery of the Shares to the Underwriters, including any transfer or other taxes payable thereon, (iii) the cost of printing or producing any Blue Sky or Legal Investment memorandum in connection with the offer and sale of the Shares under securities laws of various states and other jurisdictions and all expenses in connection with the qualification of the Shares for offer and sale under state securities laws as provided in paragraph (d) of Section 7 hereof, including filing fees and the reasonable fees, in the amount not to exceed $10,000, and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky or Legal Investment memorandum, (iv) all filing fees and the reasonable fees, in the amount not to exceed $5,000, and disbursements of counsel to the Underwriters incurred in connection with the review and qualification of the offering of the Shares by the NASD, (v) all costs and expenses incident to listing the Shares on the Nasdaq National Market, (vi) the cost of printing certificates representing the Shares, (vii) the costs and charges of any transfer agent, registrar or depositary, (viii) the costs and expenses of the Company relating to investor presentations on any "road show" undertaken in connection with the marketing of the offering of the Shares, including, without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations with the prior approval of the Company, and one-half of the total cost of all travel and lodging expenses of the representatives and officers of the Company and the representatives and officers of the Underwriters and any consultants to such parties, and one-half the cost of any aircraft chartered in connection with the road show, (ix) all expenses in connection with any offer and sale of the Shares outside of the United States, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection with offers and sales outside of the United States, and (x) all other costs and expenses incident to the performance of the

obligations of the Company hereunder for which provision is not otherwise made in this Section. It is understood, however, that except as provided in this Section, Section 9 entitled "Indemnity and Contribution," and the last paragraph of Section 11 below, the Underwriters will pay all of their costs and expenses, including fees and disbursements of their counsel, stock transfer taxes payable on resale of any of the Shares by them and any advertising expenses connected with any offers they may make.

The provisions of this Section shall not supersede or otherwise affect any agreement that the Sellers may otherwise have for the allocation of such expenses among themselves.

9. INDEMNITY AND CONTRIBUTION.

(a) The Company and Founders, jointly and severally, agree to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein. Notwithstanding the foregoing provisions of this paragraph (a), the Company and each of the Underwriters agrees with each of the Founders that any claim of such Underwriter against such Founder for indemnification, reimbursement or advancement of expenses pursuant to this Section 9(a) or for breach of any representation or warranty in Section 1 hereof shall first be sought by such Underwriter to be satisfied in full by the Company and, subject to the limitation on the aggregate liability of the Founders set forth below, shall be satisfied by the Founders only to the extent that such claim has not been satisfied in full by the Company within the 60-day period following the date requested for payment in accordance with the terms of this Agreement. The liability of each Founder under this Agreement shall be limited to an amount equal to the net proceeds received by such Founder from the offering of the Shares sold by such Founder, except with respect to (i) any breaches of the representations and warranties set forth in paragraphs (a), (c), (e) or (f) of Section 2 hereof, (ii) intentional misrepresentation or (iii) fraud.

(b) Each Selling Shareholder (other than the Founders) agrees, severally and not jointly, to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, or is under common control with, or is controlled by, any Underwriter, and the Company, its directors, its officers who sign the Registration Statement and each person, if any, who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only with reference to information relating to such Selling Shareholder furnished in writing by or on behalf of such Selling Shareholder expressly for use in the Registration Statement, any preliminary prospectus, the Prospectus or any amendments or supplements thereto, and except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein. The liability of each Selling Shareholder under the indemnity agreement contained in this paragraph shall be limited to an amount equal to the net proceeds received by such Selling Shareholder from the offering of the Shares sold by such Selling Shareholder.

(c) Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, the Selling Shareholders, the directors of the Company, the officers of the Company who sign the Registration Statement and each person, if any, who controls the Company or any Selling Shareholder within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only with reference to information relating to such Underwriter furnished to the Company in writing by such Underwriter through you expressly for use in the Registration Statement, any preliminary prospectus, the Prospectus or any amendments or supplements thereto.

(d) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to Section 9(a), 9(b) or 9(c), such person (the "INDEMNIFIED PARTY") shall promptly notify the person against whom such indemnity may be sought (the "INDEMNIFYING PARTY") in writing and the Indemnifying Party, upon request of the Indemnified Party, shall retain counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party and any others the Indemnifying Party may designate in such proceeding and shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (i) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the Indemnifying Party and the Indemnified Party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the Indemnifying Party shall not, in respect of the legal expenses of any Indemnified Party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for (i) the fees and expenses of more than one separate firm (in addition to any local counsel) for all Underwriters and all persons, if any, who control any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, (ii) the fees and expenses of more than one separate firm (in addition to any local counsel) for the Company, its directors, its officers who sign the

Registration Statement and each person, if any, who controls the Company within the meaning of either such Section and (iii) the fees and expenses of more than one separate firm (in addition to any local counsel) for all Selling Shareholders and all persons, if any, who control any Selling Shareholder within the meaning of either such Section, and that all such fees and expenses shall be reimbursed as they are incurred. In the case of any such separate firm for the Underwriters and such control persons of any Underwriters, such firm shall be designated in writing by Morgan Stanley & Co. Incorporated. In the case of any such separate firm for the Company, and such directors, officers and control persons of the Company, such firm shall be designated in writing by the Company. In the case of any such separate firm for the Selling Shareholders and such control persons of any Selling Shareholders, such firm shall be designated in writing by the persons named as attorneys-in-fact for the Selling Shareholders under the Powers of Attorney. The Indemnifying Party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the Indemnifying Party agrees to indemnify the Indemnified Party from and against any loss or liability by reason of such settlement or judgment. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such proceeding.

(e) To the extent the indemnification provided for in Section 9(a), 9(b) or 9(c) is unavailable to an Indemnified Party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each Indemnifying Party under such paragraph, in lieu of indemnifying such Indemnified Party thereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Indemnifying Party or parties on the one hand and the Indemnified Party or parties on the other hand from the offering of the Shares or (ii) if the allocation provided by clause 9(e)(i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause 9(e)(i) above but also the relative fault of the Indemnifying Party or parties on the one hand and of the Indemnified Party or parties on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Sellers on the one hand and the Underwriters on the other hand in connection with the offering of the Shares shall be deemed to be in the same respective proportions as the net proceeds from the offering of the Shares (before deducting expenses) received by each Seller and the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover of the Prospectus, bear to the aggregate Public Offering Price of the Shares. The relative fault of the Sellers on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Sellers or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Underwriters' respective obligations to contribute pursuant to this Section 9 are several in proportion to the respective number of Shares they have purchased hereunder, and not joint.

(f) The Sellers and the Underwriters agree that it would not be just or equitable if contribution pursuant to this Section 9 were determined by pro rata allocation (even if the

Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in Section 9(e). The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Section 9 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any Indemnified Party at law or in equity.

(g) The indemnity and contribution provisions contained in this Section 9 and the representations, warranties and other statements of the Company and the Selling Shareholders contained in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, any Selling Shareholder or any person controlling any Selling Shareholder, or the Company, its officers or directors or any person controlling the Company and (iii) acceptance of and payment for any of the Shares.

10 TERMINATION. This Agreement shall be subject to termination by notice given by you to the Company, if (a) after the execution and delivery of this Agreement and prior to the Closing Date (i) trading generally shall have been suspended or materially limited on or by, as the case may be, any of the New York Stock Exchange, the American Stock Exchange, the NASD, the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or the Chicago Board of Trade, (ii) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market, (iii) a general moratorium on commercial banking activities in New York shall have been declared by either federal or New York State authorities or (iv) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis that, in your judgment, is material and adverse and (b) in the case of any of the events specified in clauses 10(a)(i) through 10(a)(iv), such event, singly or together with any other such event, makes it, in your judgment, impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus.

11 EFFECTIVENESS; DEFAULTING UNDERWRITERS. This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

If, on the Closing Date or the Option Closing Date, as the case may be, any one or more of the Underwriters shall fail or refuse to purchase Shares that it has or they have agreed to purchase hereunder on such date, and the aggregate number of Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate number of the Shares to be purchased on such date, the other Underwriters shall be obligated severally in the proportions that the number of Firm Shares set forth opposite their respective names in Schedule II bears to the aggregate number of Firm Shares set forth opposite the names of all such non-defaulting Underwriters, or in such other proportions as you may specify, to purchase the Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase on such date; provided, however, that in no event shall the number of Shares that any Underwriter has agreed to purchase pursuant to this Agreement be increased pursuant to this Section 11 by an amount in excess of one-ninth of such number of Shares without the written consent of such Underwriter. If, on the Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Firm Shares and the aggregate number of Firm Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Firm Shares to be purchased, and arrangements satisfactory to you, the Company and the Selling Shareholders for the purchase of such Firm Shares are not made within 36 hours after such default, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter, the Company or the Selling Shareholders. In any such case either you or the relevant Sellers shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and in the Prospectus or in any other documents or arrangements may be effected. If, on the Option Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Additional Shares and the aggregate number of Additional Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Additional Shares to be purchased, the non-defaulting Underwriters shall have the option to (i) terminate their obligation hereunder to purchase Additional Shares or (ii) purchase not less than the number of Additional Shares that such non-defaulting Underwriters would have been obligated to purchase in the absence of such default. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

If this Agreement shall be terminated by the Underwriters, or any of them, because of any failure or refusal on the part of any Seller to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason any Seller shall be unable to perform its obligations under this Agreement, the Sellers will reimburse the Underwriters or such Underwriters as have so terminated this Agreement with respect to themselves, severally, for all out-of-pocket expenses (including the fees and disbursements of their counsel) reasonably incurred by such Underwriters in connection with this Agreement or the offering contemplated hereunder.

12 COUNTERPARTS. This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

13 APPLICABLE LAW. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York.

14 HEADINGS. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

Very truly yours,

BROADCOM CORPORATION

By: /s/ Henry T. Nicholas
---------------------------------------
Name: Henry T. Nicholas, III
Title: Co-Chairman and Chief Executive Officer

FOUNDERS

/s/ Henry T. Nicholas
------------------------------------------
Henry T. Nicholas, III

/s/ Henry Samueli
------------------------------------------
Henry Samueli

The Selling Shareholders
named in Schedule I hereto,
acting severally

By: /s/ Henry Samueli
------------------------------------------
Attorney-in-Fact

Accepted as of the date hereof

Morgan Stanley & Co. Incorporated
BT Alex. Brown Incorporated
Credit Suisse First Boston Corporation
Hambrecht & Quist LLC
Merrill Lynch, Pierce, Fenner & Smith Incorporated

Acting severally on behalf of
themselves and the several
Underwriters named in
Schedule II hereto.

By: Morgan Stanley & Co. Incorporated

By: /s/ Paul E. Chamberlain
----------------------------------
Name: Paul E. Chamberlain
Title: Principal

SCHEDULE I

| SELLING SHAREHOLDER | NUMBER OF FIRM SHARES TO BE SOLD |
|---|---|
| Alpert, Herb | 22,195 |
| Bhatia, Prakash | 150 |
| Brandlin, Laura | 2,250 |
| Brooks, Donald | 37,168 |
| Cameron, Kelly | 25,650 |
| Carlcom Investments, Inc. | 9,749 |
| Carpenter, Richard | 22,195 |
| Chang, Emery | 500 |
| Costanzo, Timothy & Claudia, Trustees of the Costanzo Family Trust dated March 15, 1989 | 9,878 |
| Creigh, John | 5,625 |
| Dull, David | 15,000 |
| Dumouchel, Jean | 6,750 |
| Echtenkamp, Jeffrey | 2,500 |
| Eichen, Myron S. & Joan D., as Trustees under Trust Agreement dated May 26, 1982 | 45,000 |
| Fernandez, Aurelio | 30,000 |
| Firlein, Vivian Carol | 250 |
| Ford, Julianne | 450 |
| Garcia, Virgilio | 300 |
| Glelter, John | 4,000 |
| Haas, Kenneth | 225 |
| Halberg, Cheryl | 375 |
| Hanna, Ganalios | 5,000 |
| Hao, Yi-Hsien | 2,000 |
| Heiden, David | 6,300 |
| Henry Samueli and Susan Faye Samueli, Trustees of the Samueli Family 1995 Trust | 430,000 |
| Henry Thompson Nicholas and Stacey Elizabeth Nicholas, Trustees of the Nicholas Family Trust d/o/e 11-2-94 | 430,000 |
| Hollywood Venture Capital, Inc. | 5,488 |
| Huang, Lipson | 500 |
| Intel Corporation | 630,580 |
| Irell & Manella | 52,036 |

| SELLING SHAREHOLDER | NUMBER OF FIRM SHARES TO BE SOLD |
|---|---|
| Jantzi, Steve | 2,500 |
| Judicrest Holdings, Inc. | 4,390 |
| Khorramabadi, Haideh | 5,000 |
| Kwei, Johnny Y. | 2,000 |
| Law, Honmann Samuel | 3,000 |
| Lawrence, J. Carey & Lori M., Trustees of the Lawrence Family Trust dated June 4, 1996 | 11,564 |
| Lee, Jind-Yeh (Michael) | 500 |
| Lee, Owen | 1,200 |
| Li, Xiaojun (Johnson) | 750 |
| Lindenfelser, Tim | 90,000 |
| Linson, Neal | 3,281 |
| MacInnis, Alexander | 10,000 |
| Maine, Stephen | 7,866 |
| Mali, Jagan | 10,000 |
| Mandel, David | 6,143 |
| Mandel, Ruth | 9,170 |
| Manian, Vahid | 33,000 |
| Marcus-LaBonty, Laurent | 630 |
| Miskell, George | 2,250 |
| Monroe, Jason | 3,375 |
| Moshar, Hooman | 9,000 |
| Moskowitz, Jeffrey, Trustee | 9,878 |
| Moss, Jerome S. | 22,195 |
| Myers, Glenn | 2,000 |
| Norgren, William | 3,567 |
| O'Rourke, Aidan | 6,750 |
| Osborne, Larry | 1,000 |
| Palevsky, Max | 8,115 |
| Palevsky, Nick | 6,586 |
| Pham, Daniel | 500 |
| Pharn, Art | 1,000 |
| Preuss, Peter | 6,145 |
| Reddy, Venkatesh | 5,000 |

| SELLING SHAREHOLDER | NUMBER OF FIRM SHARES TO BE SOLD |
|---|---|
| Ross, Alan E. | 19,800 |
| Rossfield Investments Ltd. | 4,390 |
| Roston Enterprises | 23,718 |
| Ruehle, William J. | 40,000 |
| Samueli, Leon M. and Barbara Jane | 9,878 |
| Scientific-Atlanta, Inc. | 340,000 |
| Tang, Chengfuh Jeffrey | 2,500 |
| Taylor, Deborah | 562 |
| Vandermeer, Roland | 3,293 |
| Velatini, Gregg | 2,000 |
| Venbrux, Jack | 320 |
| Vu, Hung | 2,000 |
| Walker, Carolyn | 4,375 |
| Wang, Mark M. | 1,500 |
| Wolfen, Lawrence | 15,750 |
| Wolfen, Werner F. | 22,500 |
| Xie, Xiaodong | 2,000 |
| Yeager, Catherine Cox | 250 |
| Yoshida, Hiromi | 22,195 |
| Total | 2,607,500 |

SCHEDULE II

| UNDERWRITER | NUMBER OF FIRM SHARES TO BE PURCHASED |
|---|---|
| Morgan Stanley & Co. Incorporated | 600,000 |
| BT Alex. Brown Incorporated | 600,000 |
| Credit Suisse First Boston Corporation | 600,000 |
| Hambrecht & Quist LLC | 600,000 |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated | 600,000 |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated | 600,000 |
| Total | 3,000,000 |

SCHEDULE III

| SELLING SHAREHOLDER | MAXIMUM NUMBER OF ADDITIONAL SHARES TO BE SOLD |
|---|---|
| Alpert, Herb | 5,104 |
| Brooks, Donald | 8,547 |
| Carlcom Investments, Inc. | 2,242 |
| Carpenter, Richard | 5,104 |
| Costanzo, Timothy & Claudia, Trustees of the Costanzo Family Trust dated March 15, 1989 | 2,272 |
| Henry Samueli and Susan Faye Samueli, Trustees of the Samueli Family 1995 Trust | 60,000 |
| Henry Thompson Nicholas and Stacey Elizabeth Nicholas, Trustees of the Nicholas Family Trust d/o/e 11-2-94 | 60,000 |
| Hollywood Venture Capital, Inc. | 1,262 |
| Intel Corporation | 119,420 |
| Irell & Manella | 11,965 |
| Judicrest Holdings, Inc. | 1,010 |
| Lawrence, J. Carey & Lori M., Trustees of the Lawrence Family Trust dated June 4, 1996 | 2,658 |
| Maine, Stephen | 1,809 |
| Mandel, David | 1,412 |
| Mandel, Ruth | 2,109 |
| Moskowitz, Jeffrey, Trustee | 2,272 |
| Moss, Jerome S. | 5,104 |
| Norgren, William | 820 |
| Palevsky, Max | 1,866 |
| Palevsky, Nick | 1,514 |
| Preuss, Peter | 1,413 |
| Rossfield Investments Ltd. | 1,010 |
| Roston Enterprises | 5,454 |
| Samueli, Leon M. and Barbara Jane | 2,272 |
| Scientific-Atlanta, Inc. | 60,000 |
| Vandermeer, Roland | 757 |
| Yoshida, Hiromi | 5,104 |
| Total................................................... | 372,500 |

5
1,000

9-MOS
DEC-31-1998
JAN-01-1998
SEP-30-1998
42,706
14,944
26,523
4,167
5,877
92,397
34,545
9,896
162,337
20,594
0
0
0
4
141,739
162,337
129,568
132,997
57,870
57,870
40,652
652
(2,417)
36,240
12,684
23,556
0
0
0
23,556
0.64
0.51