Xenon Microsystems
BUSINESS PLAN

Contents

1. Mission

Xenon's mission is to make the Video Signal Processor (VSP) the industry standard for multimedia computing applications, including graphics acceleration, video encode/decode, audio, and FAX/modem functions.

In order to fulfill this mission, Xenon will

(1) Develop a family of VSP multimedia processors
(2) License semiconductor partners to manufacture and sell the VSPs.
(3) Develop the VSP market
(4) Design and sell software for the VSP

2. The Personal Computer Multimedia Market

The defining characteristic of multimedia systems is the incorporation of continuous media such as voice, video, and animation (graphics). PCs will be the first major market for multimedia functions. As shown in the table below, In-Stat projects that 54% of PCs shipped in 1995 will be multimedia capable, growing to 81% by 1997.

	1995	1996	1997	1998
Total PCs	48M	50M	52M	53M
Multimedia	26M	35M	42M	45M

This trend is being driven by mulitmedia software, including multimedia support in Windows 4.0 and a growing number of multimedia applications for both the office and the home:

FUNCTION	OFFICE	HOME
Graphics Acceleration	Windows	Windows, Games (3D)
Video Codec	Video Teleconferencing	CDROM, Games
Audio/Telephony	Video Teleconferencing	Games, Music
FAX/Modem	Communications	On-line services

In 1995-96, Xenon's emphasis will be on the PC market. The Company will concentrate initially on the desktop IBM-compatible PC market, followed by IBM-compatible notebooks and Power PC products. Text and speech recognition and speech synthesis will also become attractive markets. By 1997, the Company expects to apply its multimedia technology to address other high-volume markets, including set top converters and games.

3. Strategy

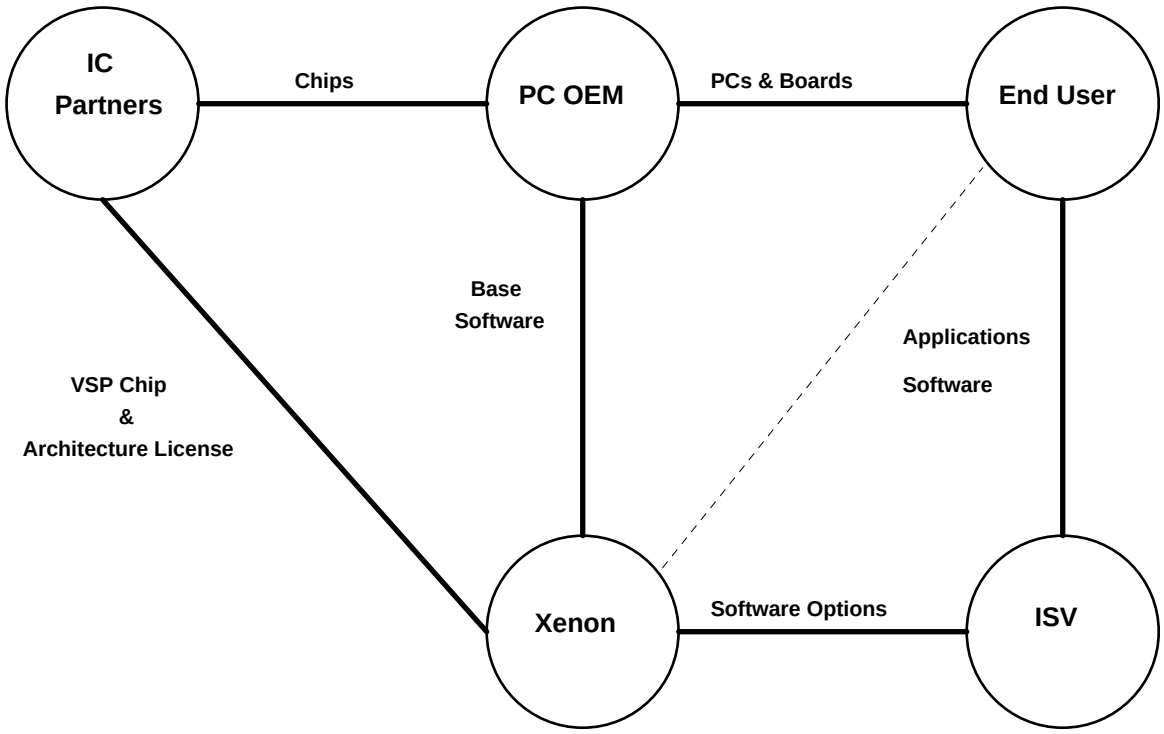
Xenon's Video Signal Processor (VSP) is the first Digital Signal Processor (DSP) designed specifically to deliver the full range of multimedia PC functions on a single chip. Its low cost will drive widespread acceptance in this growing segment of the PC market. Xenon's cost advantage comes from the IC architecture, which is optimized for PC multimedia functions. The VSP achieves further cost advantages through a breakthrough co-processor approach that uses the VSP for vector functions and high-speed signal processing, and uses computing resources available in the host processor for scalar operations. This allows Xenon software to take advantage of the floating point performance available in the host CPU, while preserving the relative simplicity of a fixed point DSP engine for vector operations. Use of the high-speed Rambus interface provides cost-effective memory bandwidth that helps reduce the amount of SRAM on the VSP. These innovations provide significant cost advantages over general-purpose DSPs. Xenon's innovative IC manufacturing and distribution strategy will also reduce prices of the VSP to customers.

The Xenon VSP is software driven. This affords flexibility to accommodate changing standards, and cost-effective upgrades to add new features. It also supports a standard hardware configuration that reduces manufacturing costs and simplifies PC configuration. This integrated solution also supports the Plug and Play initiative to improve PC usability and ease of upgrading.

4. Business Model

Xenon's business model extends the cost advantages inherent in the VSP architecture. This strategy goes beyond the fabless semiconductor company model, and licenses the VSP to semiconductor manufacturers to both manufacture and sell. This offers two sources of cost advantages over fabless competitors. First, Xenon is able to attract world-class semiconductor manufacturers as partners. These companies have leading edge sub-micron manufacturing processes that are two-three years ahead of processes available to fabless companies working with silicon foundries. For a chip of the complexity of the VSP, this process advantage can result in a cost that is 50% less than the same chip built in a less advanced process. Adding to this advantage, the same products will be available from 2-3 semiconductor partners, promoting price competition in the marketplace. This offers a welcome change from the semiconductor trend toward proprietary ICs, and it also assures reliable supply for high volume customers.

Second, Xenon will not pursue the traditional fabless semiconductor company model, purchasing silicon and marking up the ICs as a source of profits. This addition of this additional layer in the distribution channel can add up to 40% to the price of an IC. Instead, Xenon will license semiconductor partners to manufacture the ICs and to sell them to directly to manufacturers of PCs and add-in cards. The semiconductor partners will pay Xenon a royalty to compensate Xenon for design, and for VSP market development.



Xenon's primary revenue stream will come from the sale of software licenses through three possible channels: (1) Xenon's base software, including the OS kernel, graphics, and modem functions, will be sold through PC and add-in board OEMs who are using Xenon's VSP ICs. In the beginning, software options will also be sold primarily through these OEMs. (2) With sufficient market penetration, or with specialized versions of our software, we may be able to sell software options through applications software suppliers, bundled with the appropriate applications software. (3) Selling our software directly, with electronic delivery; will require integrated solutions and electronic registration of customers who purchase systems or boards that include a Xenon VSP.

5. Products

A. Integrated Circuits:

Xenon's first chip, the VSP-1, is a SIMD processor with approximately 700K transistors. The table below summarizes the estimated utilization of the VSP-1 and the host processor for some of the more processor-intensive multimedia functions:

FUNCTION	VSP	486DX2-66
MPEG-1 Video Decode	25%	25%
MPEG-1 Video Encode	90%	90%
MPEG-2 Decode	60%	60%
H.261 Video Conf (CIF,15F/s,384Kb/s)	50%	50%
G.722 Audio (64K)	20%	20%
V.32, V.32bis Modem	15%	20%

VSP-1 tape out is scheduled for Feb 1995, and the first demonstrable product should be available in May, 1995. Volume production should commence in 1Q96. Die size estimates suggest that the product can be sold with reasonable profit margins for $27.00 in 1996, and $16.00 in 1998.

Xenon expects to extend the VSP architectures to address new segments of the multimedia market, and to provide processing power for additional functions. The following table shows Xenon's IC roadmap:

PRODUCT	SAMPLES	DESCRIPTION
VSP-1	2Q95	First Generation Video Signal Processor
VSP-1P	1Q96	VSP-1 for Portable PCs
VSP-2	4Q96	4X Performance Increase; New Applications
VSP-Int	1Q97	Single Chip Multimedia System

B. Software

Xenon's software includes device drivers (host CPU) and firmware (VSP) that enable the VSP to perform a broad range of multimedia functions. With the appropriate software, the VSP will provide graphics acceleration, video decoding, audio/sound functions, and FAX/modem data communications. Additional software will provide business teleconferencing, including speaker phone telephony combined with voice-data modems or video-voice-data modems.

The following table summarizes Xenon's software product roadmap:

Year	Display	Motion Video	Audio	FAX/ Modem	Other
1995	- Windows GUI Accel	- MPEG-1,2 Decode - MPEG-1 Encode	- Sound-blaster	- V.32bis	
1996	- NT, OS/2 GUI Accel - 3D Accel	- Indeo - MPEG-2 Encode (not realtime)	- Waveguide	- V.32terbo - V.34	- H.320/261 Video Teleconf.
	Power PC				
1997	- Enhanced 3D Accel			-Voice/ Data ISDN	- CDROM Error Corr
1998					- Doc't Imaging

6. Sales, Marketing, and Technical Support

A. Product Introduction

Xenon is ahead of its competitors in developing an integrated solution for the multimedia market. In order to protect this lead, we intend to keep our work a closely guarded secret until we are ready to demonstrate it to prospective customers. It is unlikely that this strategy will delay the design-in of our VSPs, as most customers must see a working product before making a design commitment.

B. Integrated Circuit Market

Xenon must take the lead in developing the VSP market. We will direct our first efforts to winning designs at the leading suppliers of IBM-compatible PCs and add-in boards. Customer visits should begin as soon as we can demonstrate the capabilities of the VSP reference board and software. By this time we must have a prioritized list of initial customers to contact, and the name of the right person at each account. We will also need a solid product demonstration, and polished customer presentation materials that include competitive comparisons, and sales literature. We will make our reference board design, complete with artwork and bill of materials, freely available, Our goal will be to win commitments to design boards/motherboards incorporating the VSP. Add-in board suppliers can begin volume production of a new product 6-9 months from starting the design (seeing a convincing demonstration). PC motherboard designs typically move to production about 12 months after design commences.

For high-priority customers, we may offer modified versions of the Xenon software that provide proprietary product features. We may also offer them the opportunity of upgrading modem software as an enticement for customer registration with the OEM.

We will enlist the help of our semiconductor partners in the sales process. We will provide sales literature to them, and train their sales forces. We will introduce them to prospective customers, and work with them to develop and maintain acceptable VSP volume production pricing projections 12-18 months in the future.

C. Software Market

Independent Software Vendors (ISVs) developing multimedia applications software are also important to establishing Xenon as the standard multimedia platform. Our goal with the leading ISVs will be to establish resale agreements for Xenon software options. We should identify the most important software partners as early as possible, and begin visits as soon as we have a demonstrable product. For high-volume, high-visibility software suppliers, we may offer modified versions of the Xenon software to provide proprietary product advantages.

The PC and add-in board customer base is a small number of companies concentrated in North America and Southeast Asia. Our targeted list of ISVs will also be small. Initially a direct sales force of two-four people should provide adequate account coverage. Early sales efforts will involve a great deal of support from other organizations within the company. As we develop the market, Xenon will need to establish a strong ISV technical support function. Media Vision supports over 600 ISVs in North America, and over 1400 worldwide.

Xenon must establish strong presence with both PC manufacturers and ISVs. The Xenon business model includes 15% of revenues for sales and marketing expenses. For comparison, Cirrus Logic spends an estimated 9-10% of revenues on sales and marketing, and S3, 11-12%. Some of Xenon's sales and marketing costs will be offset by royalty payments from semiconductor partners.

7. R&D

R&D will be the primary source of Xenon's added value. Maintaining a high share of the PC multimedia market will require a high rate of innovation The business model calls for 40% of revenues to be reinvested in the development of new IC and software products when the company is mature.

Xenon is building a balanced R&D organization capable of establishing and maintaining technical leadership in both the IC and software areas. Xenon R&D will be differentiated by the diversity of skills in the organization: processor architectures, IC design, PC software, and multimedia software for DSPs. The Xenon culture must encourage innovative thinking.

A. ICs:

Xenon is using a structured custom VLSI design methodology to achieve a short design cycle time for complex processor designs without sacrificing cost-effective die size. The IC design team should emphasize short development cycles to maintain or extend Xenon's technical lead. Cost improvements should be left primarily to our semiconductor partners. Xenon will develop successive generations of the VSP to maintain control of the architecture, and to address new multimedia markets. Software inputs are crucial to making the right architectural tradeoffs.

B. Software:

The software for Xenon's co-processor solution must be developed to execute in both the VSP and the host CPU. The software must perform a variety of multimedia functions, each requiring specific experience in order to achieve the design schedule and performance criteria. We may license certain software in the audio and modem areas in order to reduce time to market. Xenon is already addressing the tools and methods needed to establish leadership software quality.

8. Software Partnerships

Xenon intends to protect its software from competitors by guarding the VSP software development tools and the details of the VSP instruction set. This information will be available to semiconductor partners, but only under restrictions as to their use.

Longer term, alliances with suppliers of applications software can help to build market demand for Xenon chips in PCs. Software applications that go beyond the features available through standard APIs to take advantage of the VSP's features can only operate in Xenon-equipped PCs. Potential examples include games and video teleconferencing. For these and other such applications, Xenon will approach the leading software vendors and offer special access to the VSP features in order to enhance the performance of their software.

Microsoft represents a special case for Xenon. We are following closely the emerging APIs and other standards promulgated by Microsoft for multimedia PCs and for DSPs in PCs. The ideal situation would be Xenon support for a multimedia application developed and sold by Microsoft, or Microsoft support for APIs that offered access to unique VSP features. We need to plan carefully our approach to Microsoft, as Xenon's mission as a software company for the PC market may overlap with Microsoft's business plans.

9. Manufacturing: Semiconductor Partnerships

The Xenon manufacturing strategy goes beyond the "fabless semiconductor company" model. Instead of purchasing wafers from a foundry and selling proprietary ICs, Xenon will license 2-3 semiconductor companies under Xenon patents to manufacture and sell the VSP. The target partners are world class companies in terms of process technology and supplier reputation. They also possess related technologies (CPU cores, RAMDACs, etc) that will become important building blocks in future implementations. Due to Xenon's use of Rambus's interface technology, it will be easier to work with companies that are already Rambus licensees.

Xenon's strategy offers a number of advantages over conventional fabless semiconductor companies. First, multiple sources for Xenon products will assure both adequate supply of products and pricing competition. It also affords higher performance and lower manufacturing costs through access to advanced process technologies not available to fabless competitors. This approach also motivates the semiconductor partners to make cost reductions and redesigns for new processes.

Xenon's partners will receive all new VSP designs for a period of five years. They have also requested rights to develop derivatives of the VSP for non-PC multimedia applications, and rights to software tools and training in order to support the development of non-PC multimedia software. In exchange, Xenon will receive license fees that will help to defray initial product development costs. Xenon will receive a royalty to compensate the company for IC design and market development costs.

In order to make the VSP business important to each semiconductor partner, Xenon will only license 2-3 companies to build its products. Two partners are a minimum to meet customer requirements for second sources. Toshiba is the first partner, Due to Toshiba's strong position in the portable PC market, they are also an ideal partner to help us define a version of the VSP for notebook and laptop PCs. The preferred second partner is NEC. This would align Japan's two largest semiconductor companies behind the VSP, and would also provide access to NEC's PC business.

A third partner is not necessary prior to product introduction, and may never be required. Our goal is to keep the third license available in case we need an American partner to help develop the VSP market. We have approached two American companies: IBM and Motorola. Both have the necessary manufacturing technologies and ability to help develop the VSP market. Both, however, also have internal DSP projects that would be threatened by an agreement with Xenon. The existence of competitive second sources is also likely to be an issue with major American semiconductor companies. Licensing a large American semiconductor company will likely be easier with the help of a major PC manufacturer.

Xenon's prioritized list of potential partners includes:

1 Toshiba	4 IBM	7 Samsung
2 NEC	5 Oki	8 TI
3 Motorola	6 AT&T	9 Intel

10. Competition

The most likely competitors are companies that are engaged in selling chips or boards for graphics, audio, or communications functions:

Graphics:	Cirrus Logic	Chips & Technologies	Matrox
	Oak Technology	S3	Trident
	Tseng Labs	Weitek	
Video	C-Cube	Creative Labs	IIT
	Motorola	Pixel	Texas Instruments
	SGS-Thomson		
Audio	Analog Devices	AT&T	Crystal
	Media Vision	Motorola	Texas Instruments
FAX/Modem	AT&T		Rockwell

Xenon appears to have a lead of one year or more in developing a special-purpose DSP that can perform both graphics acceleration and the major multimedia functions. The combination of IC and software technologies required to develop a VSP-like solution may be a major obstacle for established companies, whether semiconductor or software.

Further in the future, another potential source of competition could come from CPUs powerful enough to perform all the required multimedia functions, as well as conventional PC computing. Intel is promoting this approach to expand the market for advanced CPUs that the clone makers cannot yet supply. On the other hand, Xenon's VSP roadmap includes a VSP-2 that is 4X faster than the first product in order to address the growing appetite of multimedia applications for computing power. Conventional CISC processors, such as Intel's, are not cost effective for the high-speed portions of many multimedia applications. Some multimedia functions, however, may migrate 100% to the host CPU. Xenon needs to recognize such trends as we develop our software.

11. Entry Barriers

Xenon will be the first supplier of single-chip solutions in a multimedia PC market that will be large and highly competitive. Effective entry barriers will be essential to our long term success.

Industry Standard: Xenon expects to be the first to market with a fully integrated DSP-based solution for video, audio, and communications functions. Initially we will work through Microsoft-supported APIs. As the VSP gains acceptance, more multimedia applications might be developed to take advantage of specific VSP features. The existence of such software will be the most effective long term barrier to market entry by competitors.

Software Partnerships: Xenon will work actively with suppliers of multimedia applications software to develop the broadest base of support. Among these, Microsoft is clearly the most important.

Silicon and Software: Xenon's innovative solution for an integrated multimedia engine depends on the combination of an innovative IC architecture and a wide range of specialized software skills. Most existing companies emphasize either IC technology, or a particular software area. None has demonstrated the combination of skills needed to implement a Xenon-like solution.

Technical Talent: Xenon is attracting world-class talent across a number of technical disciplines. It will be difficult for start up or established competitors to build the team required to duplicate our strategy.

Patents: Xenon is pursuing patents on innovative features of the VSP architecture. The company will also look for patentable ideas in its software.

Manufacturing Strategy: In allowing the semiconductor partners to sell finished products, Xenon is creating a more efficient business model that will reduce the cost of the VSP solution over other fabless companies. The nature of the partnership also provides Xenon access to the most advanced semiconductor process technologies, providing cost and performance over conventional fabless alternatives. Our partnerships with two or three of the world's best semiconductor companies will effectively block access to these companies by would-be competitors.

Single Chip Solution: Due to the software emphasis in our revenue model, Xenon is prepared to license the VSP for incorporation with a CPU core to create a single-chip multimedia solution for high-volume applications. Competitors with proprietary IC designs cannot pursue this strategy.

12. Organization

The company's highest priority is development of the first product, both a working IC and fully functional software. During this phase, R&D is clearly the highest priority, and we will minimize expenses in other areas.

We plan to hire a Marketing VP in 4Q94-1Q95, 6-9 months ahead of the first product. We will look for marketing experience in the PC market, particularly in software. Our sales VP should join the company in 1H95, about 3 months before we have the first product ready to demonstrate. We will look for experience in selling ICs to manufacturers of PC and add-in boards. The other members of the management team, a CFO and a VP, Human Resources, are planned for 2H96 or 1997. With the current strategy, there may be no need for a VP Manufacturing.

13. Core Values

In order to make Xenon a successful long-term enterprise, we need to develop a strong, positive company culture. This will be accomplished by hiring people who share the following core values, and by consistently observing and reinforcing these values:

- Mutual respect
- Integrity
- Commitment to results
- Good communications
- Teamwork and cooperation
- Initiative
- Open, participative management
- Adequate resources for projects
- High total financial rewards
- Opportunities for learning and advancement
- An enjoyable place to work

All employees should understand that customers are our clear #1 priority. We must strive to go beyond satisfying our customers, to delighting them. This can be achieved by offering our customers the most advanced products, the highest product and service quality, and the highest value. We must also commit to being open to our customers and their ideas.

14. Revenue Plan

A. PC Market Data:
   The attached summary shows three estimates of growth for the PC market. We have based our revenue plan on the In-Stat forecast for the sales of multimedia PCs. The In-Stat numbers are the most conservative of the three forecasts.
B. Multimedia Options:
   We have IC shipment forecasts for Xenon's first three multimedia software options, Dataquest's 4/94 forecast for Video codecs and Audio chips includes both units and Average Sales Price (ASP). The 6/93 BIS forecast for FAX/modem chips is for units only.

C. Bottoms-Up Revenue Forecast:

1. Royalties

   Unit volumes for both VSP-1 and VSP-2 are based on estimated penetration of the new multimedia shipments forecast by In-Stat. High penetration of the PC market will be driven by the GUI acceleration feature of the VSP, which will be priced competitively with fixed-function graphics accelerators. The attraction of the VSP is easy, cost-effective upgrades to add multimedia functions. ASP estimates are based on manufacturing costs (including royalties), and on 60% gross profit margins for our semiconductor partners. Our royalty revenue projection is the product of the total VSP revenue and the royalty rate in our Agreement.

2. Base Software

   We will sell one base software license for each VSP sold into the PC market. This base package will include kernel software, GUI acceleration, and basic modem capability. It may also include a basic audio function (FM synthesis). We expect a license fee of $2.00/copy.

3. VSP Software Options

   For each of the three software options currently in development, we have projected market penetration and average revenue per copy.

   - Video Codec: Average penetration of the market projected by Dataquest increases to 15% by 1999. This will be driven by video teleconferencing in the business market, and by games and CDROM applications in the home market. The average revenue per copy is estimated at approximately 50% of the price forecast by Dataquest for a conventional chip solution.
   - Audio: Average penetration of the market projected by Dataquest increases to 7.5% by 1999. The average revenue per copy is estimated at approximately 50% of the price forecast by Dataquest for a conventional chip solution.
   - FAX/Modem: Average penetration of the market projected by BIS increases to 15% by 1999 for high speed modem and FAX functions not included in the base software. FAX/modem capabilities may become a commodity when speeds reach their peak of 28.8kbps, and no further speed improvements are possible for ordinary dial-up telephone service.

E. Revenue Upsides

This revenue forecast does not include any of the following:

- Sales of VSP ICs and software for add-in cards used to upgrade currently installed PCs for multimedia applications.
- Sales of additional VSP software functions to be developed by Xenon, including 3D graphics, video teleconferencing, and document imaging.
- Penetration of the portable PC market (laptops and notebooks).
- Penetration of the Power PC market.
- Non-PC applications for the VSP or its derivatives.

MARKET DATA

		1995	1996	1997	1998	1999
In-Stat (Multimedia PCs)	M units	27.0	33.0	37.0	42.0	47.0
AMD (Desktop PCs)	M units	45.0	47.0	50.0	52.0	54.0
Dataquest (VESA/PCI PCs)	M units	39.4	50.0	54.8	66.3	64.0
MULTIMEDIA PCs	**M units**	27.0	33.0	37.0	42.0	47.0
VSP Shipments						
VSP-1 Units (M)		0.0	1.7	6.3	6.3	4.7
VSP-1 Mkt Share (%)		0.1%	5.0%	17.0%	15.0%	10.0%
VSP-1 ASP ($/unit)		$35.00	$25.00	$19.00	$16.00	$14.00
VSP-2 Units (M)		0.0	0.0	0.2	6.3	16.5
VSP-2 Mkt Share (%)		0.0%	0.0%	0.5%	15.0%	35.0%
VSP-2 ASP ($/unit)		$0.00	$0.00	$35.00	$25.00	$19.00
Multimedia Software Options:						
Video CODEC Chipsets - Mkt Share		0.25%	5.00%	9.00%	12.00%	15.00%
Units (M)		2.2	6.8	13.9	20.9	29.0
ASP ($/unit)		$48.18	$31.18	$25.11	$22.15	$19.76
Audio Chipsets - Mkt Share		0.02%	0.75%	2.50%	5.00%	7.50%
Units (M)		34.0	45.0	50.0	52.0	54.0
ASP ($/unit)		$8.82	$9.33	$9.40	$9.62	$9.63
Fax/Modem Chipsets - Mkt Share		0.05%	2.50%	7.50%	10.00%	15.00%
Units (M)		7.7	10.3	13.4	17.4	22.6

Source: Dataquest (4/94), BIS (6/93)

XENON REVENUE PLAN ($000s)

	1995	1996	1997	1998	1999
Royalty	$47	$2,063	$6,299	$10,332	$15,134
Base SW	$54	$3,300	$12,950	$25,200	$42,300
Video CODEC	$124	$5,100	$16,263	$27,839	$42,195
Audio	$30	$1,569	$6,000	$12,480	$19,440
Fax/Modem	$8	$515	$2,009	$3,481	$6,789
Total Revenue	$263	$12,547	$43,521	$79,332	$125,858

15. Financial Projections

A. P&L

($000s)	1995	1996	1997	1998	1999
Royalties	$47	$2,063	$6,299	$10,332	$15,134
Base Software	$54	$3,300	$12,950	$25,200	$42,300
Software Options	$161	$7,184	$24,272	$43,800	$68,424
TOTAL REVENUE	$262	$12,547	$43,521	$79,332	$125,858
Cost of Goods Sold	$26	$1,255	$4,352	$7,933	$12,586
GROSS PROFIT MGN	$236	$11,292	$39,169	$71,399	$113,272
	90%	90%	90%	90%	90%
R&D					
Yr End Census	40	55	115	185	270
Expenses	$5,999	$8,525	$18,975	$32,375	$51,300
		68%	44%	41%	41%
Marketing & Sales					
Yr End Census	8	25	65	115	165
Expenses	$1,261	$4,000	$10,000	$16,000	$25,000
		32%	23%	20%	20%
OPERATING EXPENSES	$7,260	$12,525	$28,975	$48,375	$76,300
OPERATING INCOME	($7,024)	($1,233)	$10,194	$23,024	$36,972
			23%	29%	29%
TAXES	$0	$0	$4,078	$9,210	$14,789
PROFIT (LOSS)	($7,024)	($1,233)	$6,116	$13,814	$22,183
			14%	17%	18%

Notes:
1. Xenon's fiscal year is the calendar year.
2. The revenue here is based on meeting VLSI and software development schedules, with product demonstrations beginning in 2Q95.
3. The tax liability for 1997 does not include any benefits from tax loss carry forward from earlier years.
4. Cumulative operating income will turn positive in early 1998.

B. Cash Flow

($000s)	1994	1995	1996	1997	1998
CASH - BEGINNING	$146	$6,300	$3,558	$3,802	$4,692
SOURCES					
Equity	$5,275	$1,000	$5,000	$0	$0
Partner Dev't Fees	$4,000	$4,000	$0	$0	$0
Prepaid Royalties	$1,000	($24)	($976)	$0	$0
Lease Financing	$1,600	$0	$0	$0	$0
Profit	$0	$0	$0	$6,116	$13,814
TOTAL SOURCES	$11,875	$4,976	$4,024	$6,116	$13,814
USES					
Lease Payments	$330	$660	$660	$430	$0
Capital Equipment	$0	$0	$270	$720	$1,125
Accounts Receivable	$0	$32	$1,514	$3,819	$4,415
Inventory	$0	$2	$102	$258	$298
Losses	$5,391	$7,024	$1,233	$0	$0
TOTAL USES	$5,721	$7,718	$3,780	$5,227	$5,838
CASH FLOW	$6,154	($2,742)	$244	$890	$7,976
CASH - END	$6,300	$3,558	$3,802	$4,692	$12,667

This cash flow summary includes the following cash sources:

- $2M equity investment from Toshiba (Series C)
- $5M equity from Series D round in early 1996
- $6M in license fees from second semiconductor partner
- Revenue and expenses based on P&L model in Financial Projections

16. Risks

a. Time to Market - Engineering execution is our most critical priority, and time-to-market, our greatest risk. Late delivery of the first product would reduce our lead over competitors, and would cause us to raise more capital to fund the company's growth to profitability.

b. Product definition - The VSP-1 and its software are capable of delivering a wide range of multimedia functions. We must accurately prioritize our feature list in order to deliver the most important software capabilities with our first product. We need to understand the performance levels likely to be available from other suppliers in order to deliver a competitive product. Trade-offs between the IC and software will affect the price-performance of our solution.

c. Software revenues - As software is our primary source of revenue, we need to look for ways to prevent unauthorized copies of our software options.

d. Multimedia market - The multimedia PC market is beginning to emerge, but it is not yet large enough to support a business based on the Xenon plan. However activities across a broad range confirm the growing momentum of this new PC market segment.

e. Semiconductor partners - With only one partner on board, and plans to sign another, we are very dependent on their execution in order to deliver cost-effective VSPs on schedule. We will need to monitor their progress closely, and continue to improve the cooperative nature of our partnerships.

f. Rambus - Our only designs depend on Rambus DRAMs. If these devices are not cost effective in 1996, the Xenon market will be limited. It is to our advantage to establish our semiconductor partners among the Rambus licensees.

g. Microsoft - A decision by Microsoft to support a Xenon competitor, or to support a software standard incompatible with our plans, would be a setback for Xenon. We must continue to monitor their multimedia activities closely.