

Stock Dividend – Vialta, Inc. Common Stock

Background:

In April 1999, the Company established as a subsidiary Vialta, Inc., a Delaware corporation (“Vialta”), through which ESS planned to introduce various internet related products, including a multi-featured DVD player with internet connectivity and other advanced features. Vialta is headquartered in Fremont, California.

Stock Distribution:

August 21, 2001 Distribution: On April 21, 2001, ESS’s Board of Directors adopted a plan to distribute all of ESS’s Vialta shares to ESS’s shareholders. Effective as of August 21, 2001, ESS spun off Vialta by distributing to ESS’s shareholders of record on the July 23, 2001 record date (the “Record Holders”) all 50.6 million shares of Vialta Class A common stock then held by ESS (the “Distribution”).

Through the Distribution, Record Holders received on a pro rata basis approximately 1.182 shares of Vialta Class A common stock for each share of ESS common stock they held on the July 23, 2001 record date. Fractional shares were rounded up to the nearest whole share.

November 15, 2002 Distribution: Through its open market stock repurchase program, ESS repurchased and retained certain ESS common stock as of the July 23, 2001 record date. Thus, ESS was also in effect a Record Holder and received 612,276 shares of Vialta Class A stock in connection with the Distribution. At the recommendation of our tax advisors, on November 15, 2002, ESS distributed these 612,276 shares to Record Holders other than ESS.

Record Holders other than ESS will receive on a pro rata basis approximately 0.0142 share of Vialta common stock for each share of ESS common stock they held on the July 23, 2001 record date. Fractional shares have been rounded up to the nearest whole share.

Tax Free Status:

The IRS has declined to rule on whether the distribution was a tax-free distribution but the Company has an opinion from PricewaterhouseCoopers LLP that states the stock distribution complies with all IRS regulations necessary to qualify as a tax-free distribution under the IRS code.

ESST is providing the following for information purposes only - it should not be interpreted as tax advice. Consult a tax expert in preparing your tax return or in planning the tax implication of the August 21, 2001 and November 15, 2002 distributions of Vialta, Inc. common stock.

For internal purposes the Company is allocating the basis of its stock 96.4% to ESST and 3.6% to Vialta. This allocation is based on the respective stock’s average trading price between its opening and closing price on the first day of trading as follows:

	<u>Open</u>	<u>Close</u>	<u>Average</u>	<u>Allocation</u>
ESST	\$14.21	\$14.17	\$14.19	96.4%
VLTA	\$0.60	\$0.47	\$0.535	3.6%