

VIALTA INC  
Form PREM14A  
May 20, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

(Rule 14a-101)

**INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- S Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Vialta, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- S Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, par value \$0.001 per share

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(2) Aggregate number of securities to which transaction applies:

As of March 31, 2005, 51,043,665 outstanding shares of Common Stock, which includes vested options to acquire 2,146,167 shares of Common Stock at a per-share exercise price of less than \$0.36. Outstanding shares excludes

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32,039,840 shares held by Victory Acquisition Corp., which will be cancelled as of the effective time of the merger. Outstanding options excludes options held by Fred S.L. Chan, which will be cancelled as of the effective time of the merger and stapled options to purchase common stock of ESS Technology, Inc. ( ESS Technology ) and shares of Vialta s Common Stock which the company believes, based on the average strike price relative to the current price of ESS Technology common stock, will not be exercised.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The proposed maximum aggregate value of the transaction, for purposes only of calculating the filing fee, is \$18,418,643, which is the sum of (a) the product of (i) the 51,043,665 shares of Common Stock that are proposed to be converted into the right to receive the merger consideration, multiplied by (ii) the merger consideration of \$0.36 per share of Common Stock, plus (b) the product of (i) 2,146,167, the number of shares of Common Stock underlying vested options to purchase such shares at a per-share exercise price of less than \$0.36, multiplied by (ii) the amount by which the per-share merger consideration of \$0.36 exceeds the \$0.34 per share weighted average exercise price of such options. The filing fee equals the proposed maximum aggregate value of the transaction multiplied by .0001177. Outstanding shares excludes 32,039,840 shares held by Victory Acquisition Corp., which will be cancelled as of the effective time of the merger. Outstanding options excludes options held by Fred S.L. Chan, which will be cancelled as of the effective time of the merger and stapled options to purchase common stock of ESS Technology and shares of Vialta s Common Stock which the company believes, based on the average strike price relative to the current price of ESS Technology common stock, will not be exercised.

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(4) Proposed maximum aggregate value of transaction:

\$18,418,643

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(5) Total fee paid:

\$2,168

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£ Fee paid previously with preliminary materials.

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£ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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(6) Amount Previously Paid:

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(7) Form, Schedule or Registration Statement No.:

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(8) Filing Party:

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(9) Date Filed:

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**VIALTA, INC.  
48461 FREMONT BOULEVARD  
FREMONT, CALIFORNIA 94538**

Dear Vialta Stockholder:

You are cordially invited to attend a special meeting of the stockholders of Vialta, Inc. to be held on \_\_\_\_\_, 2005 at \_\_\_\_\_ a.m., local time, at the Fremont Marriott, 46100 Landing Parkway, Fremont, CA 94538.

At the special meeting, you will be asked to consider and vote upon a proposal to approve and adopt the merger agreement between Vialta and Victory Acquisition Corp., a company controlled by Vialta's chairman, Fred S.L. Chan, and the merger contemplated thereby. You will also be asked to consider and vote upon a proposal to adjourn the special meeting if necessary to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger agreement.

Under the terms of the proposed merger, all stockholders of Vialta, other than Victory Acquisition Corp. and Fred S.L. Chan, his wife Annie M.H. Chan, trusts established for the benefit of their children and a related entity, who are, directly or indirectly, investors in Victory Acquisition Corp. (the participating stockholders) as well as stockholders who have perfected or not lost or waived the benefit of appraisal or dissenters' rights, would receive \$0.36 per share in cash, and Mr. Chan and the other participating stockholders would acquire 100% ownership of Vialta, Inc. Shares held by the company would be canceled without any payment.

The all-cash price of \$0.36 per share represents a 50% premium to the average closing price of Vialta common stock for the 30 days prior to the March 28, 2005 announcement of the offer and a 60% premium to the closing price of Vialta common stock on the day before the announcement of the merger.

**Our Board of Directors, in accordance with the recommendation of a special committee of the Board of Directors, unanimously, with Mr. Chan abstaining, recommends that stockholders vote FOR approval and adoption of the merger agreement and the merger and FOR the proposal to adjourn the special meeting if necessary to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger agreement.** A Special Committee of independent directors was appointed to evaluate the merger, and after direct negotiations with Mr. Chan and careful consideration, including a thorough review with its independent advisors and the receipt of a fairness opinion from its independent financial advisor, unanimously determined that the merger is fair to and in the best interests of Vialta's stockholders other than the participating stockholders.

**Your vote is very important to us. Approval and adoption of the merger agreement and the merger requires the affirmative vote of a majority of the shares outstanding as of \_\_\_\_\_, 2005, the record date for the special meeting. Accordingly, whether or not you plan to attend the special meeting in person, please complete, sign, date and return the enclosed proxy in the accompanying self-addressed postage pre-paid envelope (or, if your shares are held in \_\_\_\_\_ street name by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct it to vote your shares) as soon as possible.**

The enclosed proxy statement provides you with detailed information about the proposed merger, the merger agreement and the special meeting. We urge you to read the entire document carefully, including information incorporated by reference and included in annexes.

Very truly yours,

Didier Pietri  
Chief Executive Officer

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of this transaction or passed upon the merits or fairness of this transaction or the adequacy or accuracy of the disclosure in the enclosed proxy statement. Any representation to the contrary is a criminal offense.**

The enclosed proxy statement is dated \_\_\_\_\_, 2005 and is first being mailed to stockholders on or about \_\_\_\_\_, 2005.

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**VIALTA, INC.  
48461 FREMONT BOULEVARD  
FREMONT, CALIFORNIA 94538**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
TO BE HELD , 2005**

To the stockholders of Vialta, Inc.:

We will hold a special meeting of stockholders of Vialta, Inc. on \_\_\_\_\_, 2005 at \_\_\_\_\_ a.m., local time, at the Fremont Marriott, 46100 Landing Parkway, Fremont, CA 94538. The purpose of the meeting is:

1. to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Reorganization, dated as of March 28, 2005, by and between Victory Acquisition Corp. and Vialta, Inc. and the merger contemplated thereby;

2. to consider and vote upon a proposal to adjourn the special meeting if necessary to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve and adopt the Agreement and Plan of Reorganization referred to in Item 1 and the merger contemplated thereby; and

3. to transact such other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

We have described the merger agreement and the related merger in the accompanying proxy statement, which you should read in its entirety before voting. A copy of the Agreement and Plan of Reorganization is attached as Annex A to the proxy statement. The record date to determine who is entitled to vote at the special meeting is \_\_\_\_\_, 2005. Only holders of Vialta, Inc. common stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting.

**Your vote is important.** To make sure your shares are represented at the special meeting, you should, as soon as possible, complete, sign, date and return the enclosed proxy card (or, if your shares are held in street name by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct it to vote your shares). You retain the right to revoke your proxy at any time before it is actually voted by submitting to the Secretary of the company a written notice of revocation, by delivering a duly executed proxy bearing a later date or by attending the special meeting and voting in person. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must bring to the meeting a proxy from the broker, bank or other nominee authorizing you to vote the shares. If you have given voting instructions to a broker, nominee, fiduciary or other custodian that holds your shares in street name, you may revoke those instructions by following the directions given by the broker, nominee, fiduciary or other custodian.

By Order of the Board of Directors,

Didier Pietri  
Chief Executive Officer

Fremont, California  
, 2005

**Whether or not you plan to attend the special meeting in person, please complete, sign, date and return the enclosed proxy in the accompanying self-addressed postage pre-paid envelope (or, if your shares are held in street name by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct it to vote your shares) as soon as possible.**

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**FORWARD-LOOKING STATEMENTS**

Any statements in this proxy statement about future expectations, plans and prospects, including statements regarding consummation of the proposed merger and statements contained herein under **CERTAIN FINANCIAL MODELS RELATING TO POTENTIAL BROADBAND PRODUCTS**, constitute forward-looking statements. In some cases, forward-looking statements may be identified by their incorporation of forward-looking terminology such as anticipate, believe, continue, estimate, expect, intend, may, should or will and other comparable terms. Forward-looking statements are subject to risks and uncertainties, which could cause actual results or outcomes to differ materially from those currently anticipated. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including the matters discussed under **Forward Looking Statements** in Vialta's most recent annual report filed with the SEC, as well as factors relating to the proposed merger contained herein. The forward-looking statements included herein are made only as of the date of this proxy statement, and Vialta undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances. Notwithstanding the foregoing, in the event of any material change in any of the information previously disclosed, Vialta will, where relevant and if required by applicable law, update such information through a supplement to this proxy statement to the extent necessary.

**SUMMARY TERM SHEET**

*Vialta Inc. is delivering this statement to you in connection with its request that you consider and vote upon a proposal to approve and adopt the Agreement and Plan of Reorganization, dated as of March 28, 2005, by and between Victory Acquisition Corp. and Vialta, Inc. and the merger contemplated thereby which are referred to in this proxy statement as the merger agreement and the merger. The merger agreement provides for the merger of Victory Acquisition Corp. with and into Vialta. Vialta would be the surviving corporation in the merger, and, immediately following the merger, Fred S.L. Chan and members of his family and affiliated entities would have direct or indirect ownership of all of the outstanding capital stock of Vialta. This summary term sheet briefly describes the most material terms of the proposed merger and may not contain all of the information that is important to you. Vialta urges you to read carefully the entire proxy statement, including the information incorporated by reference and the annexes. You may obtain without charge copies of documents incorporated by reference into this proxy statement by following the instructions under **WHERE YOU CAN FIND MORE INFORMATION**. In this proxy statement, the terms the company and Vialta refer to Vialta, Inc. and the term Victory refers to Victory Acquisition Corp.*

*A copy of the merger agreement has been included to provide you with information regarding its terms. It is not intended to provide any other factual information about us. Such information can be found elsewhere in this proxy statement and in the other public filings Vialta makes with the Securities and Exchange Commission, which are available without charge at [www.sec.gov](http://www.sec.gov).*

*The merger agreement contains representations and warranties made by the parties to each other. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules that were exchanged in connection with signing the merger agreement. While we do not believe that they contain information securities laws require us to publicly disclose other than information that has already been so disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached merger agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, since they are modified in important part by the underlying disclosure schedules. These disclosure schedules contain information that has been included in Vialta's general prior public disclosures, as well as potential additional non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the agreement, which subsequent information may or may not be fully reflected in the companies' public disclosures.*

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**Parties Involved in the Proposed Transaction (page 50)**

*Vialta, Inc.* Vialta is a Delaware corporation engaged in the business of designing and marketing a limited number of consumer electronics products. Vialta was incorporated in April 1999 as a wholly owned subsidiary of ESS Technology, Inc. It became a public company in August 2001, when it was spun off from ESS Technology, Inc. to operate as a stand-alone entity. Since the spin off, Fred S.L. Chan and members of the Chan family and related entities, have owned at least a 35% voting interest in Vialta.

*Participating Stockholders* The participating stockholders consist of Fred S.L. Chan, his wife Annie M.H. Chan, trusts established for the benefit of their children, and a related entity.

*Victory Acquisition Corp.* Victory Acquisition Corp. is a recently formed Delaware corporation established by the participating stockholders for the sole purpose of effecting the merger. The participating stockholders have contributed to Victory shares of Vialta common stock beneficially owned by them pursuant to the terms of a stock contribution agreement among Victory and the participating stockholders. The stock contribution agreement is attached to this proxy statement as Annex B. No cash merger consideration will be paid for shares that are exchanged for equity securities of Victory or for options held by the participating stockholders. In the merger, all shares of Victory common stock will be converted into Vialta common stock. As a result of the merger, the participating stockholders will collectively acquire 100% ownership of Vialta.

**The Special Meeting (page 47)**

*Matters to be Considered (page 47)* At the special meeting, stockholders will, among other things, consider and vote upon a proposal to approve the merger of Victory with and into Vialta and to approve and adopt the merger agreement.

*Date, Time, Place (page 47)* The special meeting will be held on \_\_\_\_\_, 2005 at \_\_\_\_\_ a.m., local time, at the Fremont Marriott, 46100 Landing Parkway, Fremont, CA 94538.

*Record Date (page 48)* Vialta has fixed \_\_\_\_\_, 2005 as the record date for the special meeting. Only holders of record of Vialta common stock as of the close of business on the record date are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof.

*Required Vote and Voting Rights (page 48)* Stockholder approval of the merger agreement and the merger requires the affirmative vote of at least a majority of the shares outstanding as of the record date for the special meeting. Only holders of record of Vialta common stock as of the close of business on the record date, which Vialta has fixed at \_\_\_\_\_, 2005, are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. The required vote for approval of the merger by Victory stockholders was the affirmative vote of at least a majority of the shares outstanding. The approval of the stockholders of Victory has already been obtained.

*Voting Agreement (page 62)* Victory has entered into a voting agreement with Vialta covering the shares of Vialta common stock it beneficially owns, representing 32,039,840 shares of common stock (or approximately 39% of the shares outstanding) providing, among other things, for such shares to be voted at the special meeting in favor of approval of the merger agreement. The voting agreement is attached to this proxy statement as Annex C. In addition, Vialta's directors and executive officers other than Mr. Chan own approximately 5% of Vialta's outstanding common stock, and have indicated to Vialta their intention to vote in favor of approval of the merger agreement and the merger.

*How Shares are Voted (page 49)* You may vote by attending the special meeting and voting in person by ballot or by completing the enclosed proxy card and then signing, dating and returning it in the postage pre-paid

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envelope provided. Submitting a proxy now will not limit your right to vote at the special meeting if you decide to attend in person. If your shares are held of record in street name by a broker, nominee, fiduciary or other custodian and you wish to vote in person at the special meeting, you must obtain from the record holder a proxy issued in your name.

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*Revocation of Proxies (page 49)* You may revoke your proxy at any time before it is actually voted by submitting to the Secretary of the company a written notice of revocation, by delivering a duly executed proxy bearing a later date or by attending the special meeting and voting in person. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must bring to the meeting a proxy from the broker, bank or other nominee authorizing you to vote the shares. Attendance at the special meeting will not, by itself, revoke a proxy. If you have given voting instructions to a broker, nominee, fiduciary or other custodian that holds your shares in street name, you may revoke those instructions by following the directions given by the broker, nominee, fiduciary or other custodian.

### **Structure of the Transaction (page 12)**

The proposed transaction is a merger of Victory with and into Vialta, which will be the surviving corporation in the merger. Following the satisfaction or waiver of other conditions to the merger, the following will occur in connection with the merger:

all shares of Vialta common stock that are held (1) in the treasury of Vialta, (2) by any wholly-owned subsidiary of Vialta, (3) by Victory or (4) by any of the participating stockholders will be canceled and retired without any consideration payable therefor;

each other share of Vialta common stock issued and outstanding immediately before the merger becomes effective (other than any share as to which a dissenting stockholder has perfected or not lost the benefit of appraisal or dissenters' rights under California or Delaware law) will be converted into the right to receive \$0.36 in cash without interest;

each share of Victory common stock will be converted into a share of common stock of Vialta, as the surviving corporation in the merger; and

each vested stock option held at the effective time of the merger will be converted into the right to receive cash in respect of such stock option in an amount equal to the product of (1) the excess, if any, of the per-share merger consideration of \$0.36 over the per-share exercise price of such stock option, multiplied by (2) the number of shares subject to such stock option (which amount will be payable without interest, net of any withholding tax and subject to the option holder's having executed a written consent on a form provided by Vialta to the effect that the cash payment is in full consideration for the cancellation of such stock option). As a result of the transaction, unvested options held by Didier Pietri will accelerate in accordance with his stay bonus agreement and unvested options issued to directors will accelerate in accordance with the terms of the 2000 Directors Stock Option Plan.

### **The Merger**

*Financing (page 36)* It is expected that Vialta will use its cash on hand to pay the merger consideration. It is a condition to Victory's obligation to complete the merger that Vialta have no less than \$14.5 million in cash and cash equivalents as of midnight on the day prior to the closing of the merger. As of March 31, 2005, the company had over \$21 million in cash and cash equivalents. As long as Vialta meets the minimum cash consideration, Victory has agreed to fund any shortfall in the merger consideration, up to a maximum of \$4 million and Fred S.L. Chan has agreed to lend up to \$4 million to Victory. See SPECIAL FACTORS Merger Financing and TRANSACTION AGREEMENTS Additional Contribution Agreement.

*Certain Effects of the Merger (page 34)* Among other results of the merger, all currently outstanding shares of Vialta will be cancelled and the stockholders of Vialta (other than the participating stockholders) will no longer have any interest in, and will no longer be stockholders of, Vialta and will not participate in any future earnings or growth of Vialta, and the participating stockholders will own, directly or indirectly, all of the outstanding shares of Vialta. Following the merger, Vialta common stock will no longer be publicly traded, and Vialta will no longer file periodic reports with the Securities and Exchange Commission (the SEC).

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*The Participating Stockholders Plans for Vialta After the Merger (page 36)* Fred S.L. Chan plans to continue to operate Vialta with a significantly reduced staff, selling the company's current products and focusing research and development efforts on broadband.

*Certain Fraudulent Transfer Risks (page 39)* If, contrary to the belief of the board of directors, Vialta is insolvent at the time of the merger or becomes insolvent because of the merger, the funds paid to stockholders upon completion of the merger may be deemed to be a fraudulent conveyance under applicable law and therefore may be subject to the claims of Vialta's creditors. If such claims are asserted by Vialta's creditors, there is a risk that persons who were stockholders at the effective time of the merger would be ordered by a court to return to Vialta all or a portion of the funds received upon the completion of the merger. The board of directors of Vialta has no reason to believe that Vialta and its subsidiaries, on a consolidated basis, will be insolvent or otherwise left with unreasonably small capital immediately after giving effect to the merger.

*Federal Income Tax Consequences (page 40)* The receipt of cash by a United States holder in exchange for Vialta common stock will be a taxable transaction for U.S. federal income tax purposes. In general, United States holders of Vialta common stock who receive cash in exchange for their shares pursuant to the merger (including any cash received in connection with the exercise of dissenters' rights) should be deemed to have received cash from Vialta pursuant to a redemption of the shares held by such stockholder or pursuant to a sale of such shares. If the deemed redemption of the shares held by a particular United States holder qualifies as an exchange under section 302(b) of the Internal Revenue Code of 1986, as amended, which is referred to as the Code in this proxy statement, or if shares are considered sold, the United States holder will recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the holder's adjusted tax basis in the shares and the amount of cash received. If the United States holder holds Vialta common stock as a capital asset, any gain or loss should generally be a capital gain or loss. If the United States holder has held the shares for more than one year, any gain or loss should generally be a long-term gain or loss. The deductibility of capital losses is subject to limitations. **Tax matters are very complex, and the tax consequences of the merger to you will depend on the facts of your own situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you, including the federal, state, local and foreign tax consequences of the merger.**

*Appraisal and Dissenters' Rights (pages 42 and 49)* If you do not vote in favor of approval of the merger agreement and the merger and you fulfill certain other procedural requirements in a timely manner, whether under California or Delaware law, as applicable, you will be entitled to a judicial appraisal of the fair value of your shares. To receive payment of the cash merger consideration after the merger becomes effective, you will be required, among other things, to waive dissenters' and appraisal rights.

**Fairness of the Merger; Conflicts of Interest**

*Vialta's Position as to the Fairness of the Merger; Recommendation of the Board of Directors (pages 22 and 26)* Because certain members of Vialta's board of directors have actual or potential conflicts of interest in evaluating the merger, the board of directors appointed a special committee of independent directors, consisting of George Cain and Michael Dubester, to evaluate the merger and make recommendations to the board of directors with respect to the merger agreement. Based on their evaluation, the special committee determined that the merger agreement and the merger are advisable, fair to, and in the best interests of the company and its stockholders (other than the participating stockholders) and recommended that the board of directors approve and adopt the merger agreement and the merger. Acting on the recommendation of the special committee, the board of directors has approved and adopted the merger agreement and approved the merger. **The board of directors, based in part on the unanimous recommendation of the special committee, unanimous, with Mr. Chan abstaining, recommends that the Vialta stockholders vote FOR the approval and adoption of the merger agreement and approval of the merger.**





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*Opinion of Financial Advisor to the Special Committee (page 26)* Salem Partners LLC, the independent financial advisor to the special committee, has delivered an opinion to the special committee and the board of directors that, as of March 28, 2005 and based on and subject to the assumptions, limitations and qualifications set forth in the opinion, the cash consideration of \$0.36 per share to be paid in the merger to the stockholders of Vialta other than the participating stockholders and Victory was fair, from a financial point of view, to such stockholders. The full text of Salem Partners LLC's written opinion is included in this proxy statement as Annex F. You should read the opinion carefully in its entirety.

*Position of the Participating Stockholders and Victory Acquisition Corp. as to the Fairness of the Merger to Vialta's Stockholders (page 33)* Fred S.L. Chan, the other participating stockholders and Victory believe that the merger is substantively and procedurally fair to the other stockholders of Vialta. In arriving at their position as to the fairness of the merger, Mr. Chan, the other participating stockholders and Victory considered the factors considered by the special committee of the board of directors discussed in the section entitled **SPECIAL FACTORS** Position of Vialta as to the Fairness of the Merger to Vialta's Stockholders; Reasons for Recommending the Approval of the Merger Agreement and the Merger, as well as the other factors discussed in the section entitled **SPECIAL FACTORS** Position of the Participating Stockholders and Victory Acquisition Corp. as to the Fairness of the Merger to Vialta's Stockholders.

*Interests of Certain Persons in the Merger (page 37)* In considering the recommendations of the board of directors, you should be aware that certain of Vialta's executive officers and directors have interests in the transaction that are different from, or are in addition to, the interests of Vialta's stockholders generally. The special committee and the board of directors were aware of these potential or actual conflicts of interest and considered them along with other matters when they determined to recommend the merger. These interests, which are discussed in detail in the section entitled **SPECIAL FACTORS** Interests of Certain Persons in the Merger, include the following:

Mr. Chan, who abstained from the vote of the board of directors, is Vialta's Chairman and the participating stockholders, who include Fred S.L. Chan, his wife Annie M.H. Chan, trusts established for the benefit of their children, and a related entity, have been the largest stockholders of Vialta since the company was founded. Mr. Chan and the other participating stockholders have contributed 32,039,840 shares of Vialta common stock (representing approximately 39% of the outstanding common stock) to Victory pursuant to the terms of the stock contribution agreement in consideration for an equal number of shares of common stock of Victory. Upon consummation of the merger, Mr. Chan and the other participating stockholders will be the sole stockholders of Vialta;

Mr. Chan is the President, Treasurer and Secretary of Victory Acquisition Corp. Upon consummation of the merger, it is anticipated that Mr. Chan will continue in the positions of President, Treasurer and Secretary of Vialta, as the surviving corporation in the merger;

unvested stock options held by Didier Pietri will accelerate in accordance with the terms of his stay bonus agreement and unvested stock options held by members of the board of directors (other than Mr. Chan) will accelerate in accordance with the terms of the 2000 Directors Stock Option Plan. Accelerated options will be converted into the right to receive cash in an amount equal to the product of (1) the excess, if any, of the per-share merger consideration of \$0.36 over the per-share exercise price of such stock option, multiplied by (2) the number of shares subject to such stock option. As a result of the acceleration of stock options, Didier Pietri will be entitled to receive \$40,000, each of George Cain and Michael Dubester will be entitled to receive \$2,400 and Matthew Fong will be entitled to receive \$1,250 with respect to previously unvested stock options;

the merger agreement provides that indemnification will continue and directors and officers insurance arrangements made by Vialta before closing will be maintained for a period of six years following the effective

time of the merger for Vialta's directors and officers; and

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each member of the special committee will receive \$2,000 per meeting attended in person and \$1,000 per meeting attended telephonically in consideration of such member's service on the special committee, with a cap of \$20,000 for the chairman and \$18,000 for the other committee member. In addition, the special committee chairman is entitled to receive an annual fee of \$25,000, payable quarterly at the end of each fiscal quarter, with any remaining balance payable at the effective time of the merger. The foregoing payments are due without regard to whether the special committee recommended approval of the merger agreement or whether the merger is consummated.

**The Merger Agreement (page 52)**

*No Limitation on Solicitation of Transactions or Termination of Merger Agreement due to Fiduciary Obligations (page 60)* The merger agreement does not contain restrictions on Vialta's ability to solicit or initiate any inquiries, proposals or offers with respect to any competing transaction or ultimately to consummate any such competing transaction until stockholders of Vialta approve the merger. The board of directors or special committee may terminate the merger agreement or withdraw, modify or change its approval or recommendation of the merger agreement if it determines in good faith that failure to take such action would be inconsistent with its fiduciary obligations to stockholders of Vialta (other than participating stockholders).

*Conditions to Completion of the Merger (page 58)* The obligations of Vialta and/or Victory to complete the merger are subject to the satisfaction or waiver of various conditions specified in the merger agreement, including conditions relating to, among other things:

the absence of any order, decree, or ruling by any court or governmental agency which would prohibit, render illegal or enjoin the consummation of the merger;

approval of the merger agreement by a majority vote of Vialta shares outstanding as of the record date;

the accuracy of the parties' representations and warranties under the merger agreement, except where a failure would not have a material adverse effect;

performance by the parties in all material respects of their obligations under the merger agreement;

the absence of a material adverse effect with respect to Vialta, as determined in the reasonable judgment of the board of directors of Victory;

receipt of a legal opinion from counsel to Vialta; and

confirmation that Vialta has no less than \$14,500,000 in cash and cash equivalents as of the closing. As of March 31, 2005, the company had over \$21 million in cash and cash equivalents.

*Termination of the Merger Agreement (page 59)* The merger agreement may be terminated at any time prior to the effective time of the merger by the mutual written consent of Vialta and Victory, acting under the direction of their respective boards of directors. In addition, either Vialta or Victory may generally (but is not required to) terminate the merger agreement at any time prior to the effective time of the merger in the event of:

failure to consummate the merger by August 13, 2005;

a final and nonappealable court or other governmental action prohibiting the merger; or

failure to obtain the requisite stockholder approval of the merger agreement at the special meeting.

In addition, Victory may terminate the merger agreement at any time prior to the effective time of the merger under specified circumstances relating to:

the failure of a representation or warranty of Vialta to be true and correct except where the failure would not have a material adverse effect, subject to a 30-day cure period;



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the failure of Vialta to perform or comply in all material respects with all of its covenants, subject to a 30-day cure period;

the special committee's withdrawing, amending or modifying its approval or recommendation of the merger agreement in a manner adverse to Victory or failing to reconfirm within 10 business days after request by Victory its recommendation of the merger agreement to Vialta stockholders;

Vialta failing to include in this proxy the recommendation of the special committee or the board of directors in favor of the merger agreement and the merger;

the special committee approving or publicly recommending an acquisition proposal other than the merger or a liquidation or dissolution;

Vialta entering into a letter of intent or similar agreement accepting any acquisition proposal other than the merger; or

Vialta failing to recommend rejection of a tender or exchange offer commenced by a party unaffiliated with Victory.

In addition, Vialta may terminate the merger agreement at any time prior to the effective time of the merger under circumstances relating to:

the failure of any representation or warranty of Victory to otherwise be true and correct, subject to a 30-day cure period;

the failure of Victory to perform or comply in all material respects with all of its covenants, subject to a 30-day cure period; or

the determination by the board of directors or the special committee in good faith after consulting with its counsel that termination is necessary to comply with its fiduciary duties.

*Expenses (page 60)* In specified circumstances, including where Vialta terminates other than due to a breach by Victory or Victory terminates due to a breach by Vialta or Vialta's failure to recommend or otherwise support the proposed merger, if the merger agreement is terminated prior to the effective time of the merger, Vialta must reimburse up to \$250,000 of Victory's expenses in connection with the merger agreement and the transactions contemplated by the merger agreement.

**QUESTIONS AND ANSWERS ABOUT THE MERGER**

*The following questions and answers, presented for your convenience only, briefly address some commonly asked questions about the merger. You should still carefully read the entire proxy statement, including the information incorporated by reference and the annexes.*

**Q: Why am I receiving these materials?**

A: The board of directors is providing these proxy materials to give you information for use in determining how to vote in connection with the special meeting.

**Q: When and where is the special meeting?**

A: The special meeting will be held on \_\_\_\_\_, 2005 at \_\_\_\_\_ a.m., local time, at the Fremont Marriott, 46100 Landing Parkway, Fremont, CA 94538.

**Q: What am I being asked to vote upon?**

A: You are being asked to consider and vote upon a proposal to approve and adopt the merger agreement and approve the merger, pursuant to which Victory will merge with and into Vialta, with Vialta as the surviving corporation in the merger.

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**Q: Who can vote on the proposal to approve and adopt the merger agreement and approve the merger?**

A: All holders of Vialta common stock at the close of business on \_\_\_\_\_, 2005, the record date for the special meeting, may vote in person or by proxy on the proposal to approve and adopt the merger agreement and approve the merger at the special meeting.

**Q: What vote is required to approve and adopt the merger agreement and approve the merger?**

A: Stockholder approval of the merger agreement and the merger requires the affirmative vote of at least a majority of the shares outstanding as of the record date. An abstention or a broker non-vote will have the same effect as a vote against the merger and the merger agreement.

**Q: How will Mr. Chan and the other directors and officers of the company vote?**

A: Mr. Chan and the other participating stockholders contributed their shares of Vialta common stock to Victory. Victory has committed to vote its shares for the merger in accordance with the terms of the voting agreement. See TRANSACTION AGREEMENTS Voting Agreement and the actual terms of the agreement attached hereto as Annex C. Victory holds approximately 39% of Vialta's shares of common stock.

In addition, Vialta's directors and executive officers other than Mr. Chan own approximately 5% of Vialta's outstanding common stock, and have indicated to Vialta their intention to vote in favor of approval of the merger agreement and the merger.

**Q: Who is soliciting my proxy?**

A: Vialta's board of directors, including Mr. Chan, is soliciting proxies to be voted at the special meeting.

**Q: What will happen in the merger?**

A: Victory will be merged with and into Vialta, with Vialta continuing as the surviving corporation in the merger. Victory was formed by Vialta's Chairman and founder, Fred S.L. Chan, solely for the purpose of acquiring all of the outstanding shares of Vialta common stock not already owned or controlled by him or the other participating stockholders, all of whom are members of or entities for the benefit of members of his immediate family. The participating stockholders have contributed to Victory the shares of Vialta common stock that they beneficially own and have agreed to contribute any shares they acquire unless the merger is terminated. After the merger, Vialta will become a privately-held company owned by the participating stockholders.

**Q: What will I receive in the merger?**

A: You will receive \$0.36 in cash in exchange for each share of common stock owned by you at the effective time of the merger, unless either (1) you are a participating stockholder of Victory or (2) you do not vote in favor of the merger agreement and have perfected or have not otherwise lost or waived your dissenters' or appraisal rights under Delaware or California law, as applicable. Prior to receipt of the merger consideration, you will be required to return an executed letter of transmittal in which you waive any right to dissenters' or appraisal rights. Stockholders who do not vote in favor of approval of the merger agreement and who otherwise comply with the procedures for perfecting dissenters' or appraisal rights under the applicable statutory provisions of California or Delaware law, as applicable, summarized elsewhere in this proxy statement may demand payment of the fair value of their shares in cash in connection with the consummation of the merger. See SPECIAL FACTORS Appraisal and Dissenters' Rights.

**Q: What are the reasons for the merger?**

A: Vialta's purpose in undertaking the merger is to allow its stockholders (other than the participating stockholders) to realize value from their investment in Vialta now, in cash at a price that represents a premium to the market price of Vialta common stock before the public announcement of the merger agreement, rather than assuming the risks associated with Vialta's ongoing operations and development of its broadband product. For the participating stockholders and Victory, the purposes of the merger are to permit Vialta greater operating flexibility as a privately held company; to reduce the substantial expenses associated with being a public company, including costs of compliance with new securities regulations



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relating to accounting and internal control procedures, and allow these resources to be used in operations; and to enable the participating stockholders to focus research and development on the broadband product and benefit from future growth, if any, of Vialta after the merger. See SPECIAL FACTORS Position of Vialta as to the Purpose and Reasons for the Merger and Position of the Participating Stockholders and Victory Acquisition Corp. as to the Purpose and Reasons for the Merger.

**Q: What was the role of the special committee?**

A: Because certain directors of Vialta have actual or potential conflicts of interest in evaluating the merger, the board of directors appointed a special committee of disinterested independent directors to negotiate, review and evaluate the proposed merger.

**Q: What is the recommendation of the special committee?**

A: The special committee has unanimously recommended to Vialta's board of directors that the merger and the merger agreement be approved and adopted. In arriving at its conclusion, the special committee considered, among other factors, the opinion of Salem Partners LLC, its independent financial advisor, that, as of the date of such opinion and based upon and subject to the limitations, qualifications and assumptions set forth in the opinion, the cash consideration of \$0.36 per share to be paid in the merger to the stockholders of Vialta other than the participating stockholders and Victory was fair, from a financial point of view, to such stockholders. See SPECIAL FACTORS Position of Vialta as to the Fairness of the Merger to Vialta's Stockholders; Reasons for Recommending the Approval of the Merger Agreement and the Merger .

**Q: What are the recommendations of the board of directors?**

A: The board of directors, based in part on the unanimous recommendation of the special committee, unanimously (with Mr. Chan abstaining) recommends that the Vialta stockholders vote FOR the approval of the merger agreement and the merger. Both the special committee and the board of directors of Vialta, after careful consideration of numerous factors, have determined that the merger agreement and the merger are fair to and in the best interests of the stockholders of Vialta other than the participating stockholders. See SPECIAL FACTORS Position of Vialta as to the Fairness of the Merger to Vialta's Stockholders; Reasons for Recommending the Approval of the Merger Agreement and the Merger .

In view of his potential conflicts of interest with respect to the merger, Mr. Chan recused himself from the confidential portions of the board of directors' deliberations with respect to the merger and the merger agreement and abstained from voting on the related resolutions, including the recommendation that Vialta stockholders vote for the approval of the merger agreement and the merger. Herbert Chang, who was the only member not present at the meeting, subsequently indicated his approval of the board's resolutions.

**Q: What are the consequences of the merger to present members of management and the board of directors?**

A: Like other stockholders, members of management and the board of directors other than Mr. Chan will be entitled to receive \$0.36 per share in cash for each of their shares of Vialta common stock and cash with respect to vested stock options at the effective time of the merger in an amount equal to the product of (1) the excess, if any, of the per-share merger consideration of \$0.36 over the per-share exercise price of such stock option, multiplied by (2) the number of shares subject to such stock option (which amount will be payable without interest, net of any withholding tax and subject to the option holder's having executed a written consent on a form provided by Vialta to the effect that the cash payment is in full consideration for the cancellation of such stock option). The merger agreement requires Vialta to use its reasonable efforts to obtain the resignation of all officers and directors of the

company as of the effective time of the merger. Mr. Chan, the sole officer and director of Victory immediately prior to the effective time of the merger will be the initial officer and director of Vialta, as the surviving corporation.

In addition, as a result of the transaction, unvested options held by Didier Pietri will accelerate in accordance with his stay bonus agreement and unvested options issued to directors will accelerate in accordance with the terms of the 2000 Directors Stock Option Plan. As a result of the acceleration of stock options, Didier Pietri will be entitled to receive \$40,000, each of George Cain and Michael Dubester will