



## Pixelworks Reports Record Fourth Quarter Revenue and Earnings; Raises First Quarter Revenue Outlook

January 23, 2001

### Selected Highlights

- Record fourth quarter revenue of \$18.1 million triples year-over-year, up 19 percent over third quarter
- Gross profit margin in fourth quarter of 42.1 percent improves for fourth consecutive quarter
- First quarter business outlook strengthens; revenue projection increased to \$19.5 million
- Company announces new design wins with InFocus Corporation and Sony

Tualatin, Ore., January 23, 2001 — Pixelworks, Inc. (NASDAQ:PXLW), the leading provider of system-on-a-chip ICs for the advanced display market, today announced record financial results for the fourth quarter and year ended December 31, 2000.

Revenue for the quarter totaled \$18.1 million, a 199 percent increase over revenue of \$6.1 million in the fourth quarter of 1999 and a 19 percent increase over revenue of \$15.3 million in the third quarter of 2000. Revenue for the year totaled \$52.6 million, a 311 percent increase over revenue of \$12.8 million in 1999.

Net income for the fourth quarter was \$2.2 million or \$0.06 per diluted share. This compared to a net loss of \$2.8 million or (\$0.38) per diluted share in the fourth quarter of 1999, and net income of \$1.8 million or \$0.05 per diluted share in the third quarter of 2000.

Net income for the fourth quarter, excluding non-cash charges for amortization of deferred stock compensation expense, was \$2.8 million or \$0.07 per diluted share. This compared to a net loss of \$1.0 million, or (\$0.14) per diluted share in the fourth quarter of 1999, excluding non-cash charges for amortization of deferred stock compensation and accretion of preferred stock redemption preference. Excluding non-cash charges for amortization of deferred stock compensation expense, fourth quarter net income increased 19 percent over third quarter 2000 net income of \$2.4 million, or \$0.06 per diluted share.

Net income for the year, excluding non-cash charges related to the amortization of deferred stock compensation, patent settlement expenses, preferred stock beneficial conversion feature charges, and accretion of preferred stock redemption preference, was \$5.7 million or \$0.17 per diluted share which compared to a net loss in 1999, excluding non-cash charges related to the amortization of deferred stock compensation and accretion of preferred stock redemption preference, of \$4.3 million, or (\$0.72) per diluted share.

“Our fourth quarter financial performance was exceptional with solid increases in revenue, profits, and market share,” said Allen Alley, President, CEO and Chairman of Pixelworks. “We remain confident of our near-term outlook and for a number of reasons believe that business in the first quarter will be better than we previously anticipated,” Alley added.

“We continue to successfully execute on our strategy of expanding from the most technologically demanding, high-end markets into high-volume, mass markets. We now are the market share leader in the multimedia projector market and the fastest-growing segment of the LCD monitor market, the 17-inch SXGA segment. With innovative products including the recently unveiled PW111 and our strategic acquisition of Panstera, we are now targeting the XGA market with the same sense of purpose that has made us successful in other market segments,” Alley said.

Today, Pixelworks is announcing several new design wins. InFocus Corporation, the worldwide leader in digital projection, is now using Pixelworks ImageProcessor ICs on multiple products across the InFocus, ASK, and Proxima branded product lines. Projectors using Pixelworks ImageProcessor ICs span the price-performance gamut from full-featured conference room projectors to the newest sub-three pound microportable projectors.

Sony is now using Pixelworks ImageProcessor ICs in a new line of stunning 42-inch hang-on-the-wall plasma displays. These flat-screen plasma displays can be used for computer graphics and video sourcing including HDTV and DVD. The new plasma products follow the integration of Pixelworks ImageProcessor ICs in Sony's critically acclaimed and popular projector products.

“As Pixelworks enters 2001 we have the vision, products, technology, and customer relationships to capitalize on three powerful market waves: the first is the revolution in digital displays for LCD monitors and multimedia projectors; the second is the emergence of the advanced television market; and the third is the proliferation of Internet-enabled, multimedia displays that will touch every aspect of our lives at home, at work and on the road,” Alley concluded.

## Business Outlook

The following statements are based on current expectations. These statements are forward-looking, subject to risks and uncertainties, and actual results may differ materially. These statements do not include the potential impact of any investments outside the ordinary course of business, or mergers or acquisitions that may be completed after December 31, 2000, other than those noted in this press release. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. The inclusion of any statement in this release does not constitute a suggestion by the company or any other person that the events or circumstances described in such statements are material. The company does not undertake to publicly update or revise these forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied in this release will not be realized.

- The business outlook includes certain effects of the pending acquisition of Panstera, Inc. expected to be completed in the first quarter of 2001. It should be noted, however, due to the uncertainty as to the actual amounts involved, this business outlook does not include other certain large, non-cash expenses related to the Panstera, Inc. acquisition that the company is expected to incur as required under generally accepted accounting principles pertaining to the purchase method of accounting for acquisitions. These expenses include, but may not be limited to; write-off of in-process research and development charges, amortization expenses related to purchased intangible assets, and deferred stock compensation expenses. The company intends to include these expenses in future business outlooks after the completion of the Panstera, Inc. acquisition.
- The company expects revenue in the first quarter of 2001 will be approximately \$19.5 million, which is higher than previously estimated due to greater projected demand for the company's products and the anticipated ability of the company's foundry partners to increase the supply of manufactured product to meet the increased demand.
- The company is maintaining its revenue outlook for 2001 with projected revenue in the upper \$90 millions range based on increasing sequential quarterly rates of growth throughout the year, however current global economic and technology market conditions make it particularly difficult at present to predict product demand for the year. Estimated growth for 2001 is highly dependent on a number of factors including, but not limited to, general economic conditions, successful and timely completion of the Panstera, Inc. acquisition, timely new product introductions, the company's ability to secure additional design wins with customers, actual growth rates in the company's primary flat panel monitor, multimedia projector, and advanced television markets, and increased supply of products from the company's third party foundries.
- The company expects gross profit margins in the first quarter of 2001 to be approximately 43 percent. The company expects quarterly gross profit margins during 2001 to vary between 43 and 46 percent. Gross profit margins may be higher or lower than expected depending on many factors including, but not limited to, competitive pricing actions, changes in estimated product costs, and changes in estimated product mix.
- Operating expenses in this business outlook exclude non-cash charges related to the amortization of deferred stock compensation expense and one-time and ongoing non-cash charges related to the acquisition of Panstera, Inc. The company expects operating expenses in the first quarter of 2001 to increase approximately 15 percent over fourth quarter 2000 operating expenses of \$6.4 million. The company expects operating expenses in 2001 to increase approximately 60 to 65 percent over 2000 operating expenses of \$19.9 million, excluding non-cash charges related to the amortization of deferred stock compensation expense and one-time patent settlement expenses.
- The company expects non-cash charges related to the amortization of deferred stock compensation expense to be approximately \$1.3 million in 2001. In addition, it is anticipated that there will be significant non-cash and one-time expenses in 2001 related to the pending acquisition of Panstera, Inc. that are not included in this outlook. These additional expenses, required under generally accepted accounting principles pertaining to the purchase method of accounting for acquisitions, will be determined following the closing of the acquisition.
- The company expects interest income of approximately \$6.0 million in 2001, which is dependent on no material change to average cash balances and interest rates from those at December 31, 2000.
- The company expects the tax provision in 2001 will be approximately 28 percent, excluding the impact of acquisition-related costs not yet considered in this business outlook.

## About Pixelworks, Inc.

Pixelworks, headquartered in Tualatin, Oregon, is the leading provider of system-on-a-chip ICs for the advanced display market. Pixelworks' solutions process and optimize video, computer graphics and Web information for display on a wide variety of devices used in business and consumer markets. For more information, please visit the company's Web site at [www.pixelworks.com](http://www.pixelworks.com).

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## Safe Harbor Statement

The statements by Allen Alley and the statements in the business outlook above are forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995. Such statements are based on current expectations, estimates and projections about the company's business. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual results could vary materially from the description contained herein due to many factors including those described above and the following: business and economic conditions, changes in growth in the flat panel monitor, multimedia projector, and advanced television industries, changes in customer ordering patterns, competitive factors, such as rival chip architectures, pricing pressures, insufficient, excess or obsolete inventory and variations in inventory valuation, continued success in technological advances, shortages of manufacturing capacity from our third-party foundries, litigation involving antitrust and intellectual property, the non-acceptance of the combined technologies by leading manufacturers, and other risk factors listed from time to time in the company's Securities and Exchange Commission filings. In addition, such statements are subject to the risks inherent in investments in and acquisitions of technologies and businesses, including the timing and successful completion of technology and product development through volume production, integration issues, unanticipated costs and expenditures, changing relationships with customers, suppliers and strategic partners, potential contractual, intellectual property or employment issues, accounting treatment and charges, and the risks that the investment or acquisition cannot be completed successfully or that anticipated benefits are not realized. The forward-looking statements contained in this press release speak only as of the date on which they are made, and the company does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this news release. If the company does update one or more forward-looking statements, investors and others should not conclude that the company will make additional updates with respect thereto or with respect to other forward-looking statements.