



Pixelworks Reports Record Revenue and Earnings in Third Quarter; Net Income Triples over Second Quarter

October 17, 2000

Selected Quarter Highlights

- Record revenue of \$15.3 million increases 256 percent year-over-year, 26 percent sequentially
- \$1.8 million net income triples from second quarter 2000
- Gross profit margin improves for third consecutive quarter to 41.5 percent, up from 33.6 percent in the third quarter 1999 and 38.9 percent in second quarter 2000

Tualatin, Ore., October 17, 2000 — Pixelworks, Inc. (NASDAQ:PXLW), a leading designer and developer of system-on-a-chip semiconductors and software that enable the visual display of broadband content, today announced record financial results for the third quarter ended September 30, 2000.

Revenue for the quarter totaled \$15.3 million, a 256 percent increase over revenue of \$4.3 million in the third quarter of 1999 and a 26 percent increase over revenue of \$12.1 million in the second quarter of 2000.

Net income for the third quarter was \$1.8 million, or \$0.05 per diluted share, based on 39.4 million weighted-average diluted shares outstanding. This compared to a net loss of \$2.3 million or \$0.35 per diluted share based on 6.6 million weighted-average diluted shares outstanding for the comparable prior year period, and net income of \$0.6 million or \$0.02 per diluted share based on 35.8 million weighted-average diluted shares outstanding in the second quarter of 2000.

Net income for the third quarter, excluding non-cash charges related to amortization of deferred stock compensation expense, was \$2.4 million, or \$0.06 per diluted share. This compared to a net loss of \$1.0 million, or \$0.15 per diluted share for the comparable prior year period, 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, third quarter net income and earnings per share doubled over second quarter net income of \$1.2 million, or \$0.03 per diluted share.

“This was a terrific quarter by any measure, with better than anticipated revenue and earnings growth, improved gross margins, and positive cash flow,” said Allen Alley, President, CEO, and Chairman of Pixelworks.

“Demand for our products has been exceptionally strong. We're particularly pleased with the 39 percent sequential growth in shipments to flat panel monitor manufacturers,” added Alley.

“Looking forward, we believe we are very well-positioned for the future with added fab capacity coming on line, a recently announced strengthening of our strategic partnership with Analog Devices, and products in development that will further strengthen our competitive position and enable us to enter new markets” 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 October 1, 2000.

- The company expects fourth quarter 2000 revenue will be higher than previously estimated, but will be supply-constrained to 11 to 13 percent above third quarter 2000 revenue of \$15.3 million. Although demand for the company's products is anticipated to be sufficient to meet or exceed this projected level of revenue growth, supply of product from the company's primary foundry is expected to constrain fourth quarter revenue growth to these rates. Revenue in 2001 is expected to grow approximately 70 to 75 percent over 2000, but is highly dependent on a number of factors. These factors include 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 consistent with current projected growth rates and increased supply of products from the company's third party foundries.
- Gross profit margins in the third quarter of 2000 were 41.5 percent, approximately two percentage points higher than expected due to a greater than forecasted proportion of higher margin products shipping and fixed expenses being spread over higher revenue. The company expects gross profit margin in the fourth quarter of 2000 to increase to approximately 42 percent based on current projections for product mix. Gross profit margin in 2001 is anticipated to increase gradually throughout the year and to reach approximately 45 percent by the fourth quarter of 2001. The increase in gross profit margin is dependent on timely introductions of new products with higher individual gross profit margins, a continuing shift in product mix toward products that are currently shipping with higher than average gross profit margins, and no significant increase in the cost of manufacturing products.
- The company expects operating expenses in the fourth quarter of 2000, excluding non-cash charges related to the amortization of deferred stock compensation expense, to increase 13 to 15 percent over third quarter operating expenses, excluding non-cash charges related to the amortization of deferred stock compensation expense, of \$5.6 million. The anticipated increase in operating expenses is expected to result primarily from planned hiring and increases in non-recurring engineering expenses. Operating expenses in 2001, excluding non-cash charges related to the amortization of deferred stock compensation expense, are expected to be 50 to 55 percent higher than 2000 operating expenses, excluding one-time charges for patent settlement expenses and non-cash charges related to the amortization of deferred stock compensation expense, of approximately \$20.0 million. The anticipated increase in 2001 operating expenses is based on current hiring plans, product development schedules, and the anticipated revenue levels referred to above.
- The company expects non-cash charges related to the amortization of deferred stock compensation expense, to remain unchanged at \$0.6 million in the fourth quarter of 2000. In 2001, the company expects non-cash charges related to the amortization of deferred stock compensation expense to be approximately \$1.3 million.
- The company expects interest income of approximately \$1.5 million in the fourth quarter of 2000, which is dependent in part on cash balances and interest rates, and assuming no unanticipated items. Interest income in 2001 is expected to be approximately \$6.0 million, which is dependent on no material changes in current cash balances or interest rates. While the company does not currently have any agreements that would materially reduce current cash balances, the company may enter into agreements in the future without notice that would consume large amounts of cash and materially reduce the amount of interest income earned in the future.
- The company does not expect a tax provision will be necessary in the fourth quarter of 2000 due to net operating loss carry-forwards that are projected to be sufficient to offset income through 2000. Based on projected earnings through 2001, the company estimates a tax provision of 26 to 28 percent will be necessary, which is up from 22 to 23 percent previously estimated due to an increase in projected earnings. The company expects to begin recording a tax provision of 26 to 28 percent in the first quarter of 2001, and assuming no change in earnings estimates or projected tax adjustments, continue at that rate through the remaining three quarters of the year.

About Pixelworks, Inc.

Pixelworks, headquartered in Tualatin, Oregon, designs, develops and markets system-on-a-chip semiconductors and software that enable the visual display of broadband content through a wide variety of electronic devices. 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.

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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. 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.