



Pixelworks Reports Record Revenue in First Quarter on Strong Demand for ImageProcessor ICs

April 17, 2001

Conference Call at 2 p.m. PDT, April 17, 2001 – Pixelworks will host a conference call at 2 p.m. PDT, April 17, 2001, which can be accessed at (913) 981-5523 using pass code 421979, or at www.streetfusion.com. A replay will be available by telephone through April 19, 2001, at (719) 457-0820 using code 421979. The Web broadcast will also be available at www.streetfusion.com through May 1, 2001.

On Strong Demand For ImageProcessor ICs

Selected Highlights

- Record first quarter revenue of \$21.3 million triples year-over-year, up 18 percent over fourth quarter
- Gross profit margin of 43.4 percent improves for fifth consecutive quarter
- Pro forma net income* of \$3.0 million increases for the seventh consecutive quarter

* Pro-forma net income (loss) represents net income (loss) excluding non-cash expenses for the amortization of goodwill and assembled workforce, patent settlement expense, in-process research and development expense, amortization of deferred stock compensation, accretion of preferred stock redemption preference and preferred stock beneficial conversion feature. Net income (loss) excluding these expenses differs from net income (loss) according to generally accepted accounting principles.

Tualatin, Ore., April 17, 2001 — Pixelworks, Inc. (NASDAQ:PXLW), the leading provider of system-on-a-chip ICs for the advanced display market, today announced financial results for the first quarter ended March 31, 2001.

Revenue for the first quarter of 2001 was \$21.3 million, a 202 percent increase over revenue of \$7.1 million in the first quarter of 2000 and an 18 percent increase over revenue of \$18.1 million in the fourth quarter of 2000.

Pro-forma net income* for the first quarter was \$3.0 million, or \$0.07 per diluted share, an increase of \$3.7 million over the pro-forma net loss of \$0.6 million, or \$0.08 per share, in the first quarter of 2000. Pro-forma net income for the first quarter increased 7 percent over fourth quarter 2000 pro-forma net income of \$2.8 million, or \$0.07 per diluted share.

Non-cash charges recorded in the first quarter of 2001 in accordance with generally accepted accounting principles included \$32.4 million for the write-off of in-process research and development, \$2.9 million for amortization of goodwill and assembled workforce, and \$1.8 million for amortization of deferred stock compensation. Including these non-cash charges, net loss for the first quarter of 2001 was \$34.1 million, or \$0.87 per share, compared to a net loss of \$17.3 million, or \$2.19 per share, in the first quarter of 2000 and net income of \$2.2 million, or \$0.06 per diluted share, in the fourth quarter of 2000. Total non-cash charges in the first quarter resulting from the acquisition of Panstera, Inc. totaled \$36.8 million.

"Our first quarter financial performance was exceptional with solid increases in revenue, pro forma profits, and market share," said Allen Alley, President, CEO, and Chairman of Pixelworks. "Results like these are particularly gratifying given the challenging economic environment," Alley added.

"Our products are in high demand and we are rapidly gaining market share in the LCD monitor market. Our unit sales into the flat panel monitor business increased 50 percent this quarter. This is three times the estimated growth rate for the industry," Alley said.

"We are exiting the first quarter focused on the future. We are financially strong and have a rich and growing portfolio of technologies to bring to bear on the markets we serve," 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 March 31, 2001. 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.

Given the high level of economic uncertainty, estimating revenue for future periods beyond the second quarter of 2001 has become very difficult. Based on current backlog, the company estimates revenue of approximately \$22.5 million in the second quarter of 2001. Assuming no

material change to currently projected rates of growth in the flat panel monitor, multimedia projector, and advanced television markets, the company is projecting sequential quarterly revenue growth of 11 to 13 percent in the third and fourth quarters of 2001. For the year 2001, the company is maintaining its outlook for revenue in the upper \$90 millions range. Estimated growth for 2001 is highly dependent on a number of factors including, but not limited to, general economic conditions, timely new product introductions, the company's ability to secure additional design wins with customers, actual growth rates in the 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 of approximately 44 percent in the second quarter of 2001 and gross profit margins in the second half of 2001 of approximately 45 to 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.

- The company expects combined operating expenses for R&D and SG&A, excluding in-process R&D expenses, to increase to approximately \$8.2 million in the second quarter of 2001, up from \$7.7 million in the first quarter of 2001. Combined R&D and SG&A expenses in 2001, excluding in-process R&D expenses, are expected to be approximately \$35 million, up 75 percent from \$19.9 million in 2000.

- The company expects non-cash charges related to the amortization of deferred stock compensation to be approximately \$2.5 million per quarter for the remainder of 2001, including approximately \$2.2 million per quarter related to the January 2001 acquisition of Panstera. The company expects non-cash charges from the acquisition of Panstera for amortization of goodwill and assembled workforce to be approximately \$4.4 million per quarter for the remainder of 2001.

- The company expects interest income of approximately \$1.25 million per quarter in the second through fourth quarters of 2001. This estimate is dependent on no material change to average cash balances and interest rates from those at March 31, 2001.

- The company now expects no tax provision will be necessary in 2001 as a result of higher net operating loss carryforwards and an increase in estimated tax deductions and credits expected to result from 2001 activities.

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.

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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.

Contact Information:

Investor Inquiries

Jodie Brady

Pixelworks, Inc.

Tel: (503) 612-6700 ext.
527

E-mail:
jodieb@pixelworks.com

Media Inquiries

Chris Bright

Pixelworks, Inc.

Tel: (503) 612-6700 ext.
594

E-mail:
cbright@pixelworks.com

Web site:
www.pixelworks.com