



Pixelworks Reports Second Quarter Financial Results; Record Revenue Exceeds April Outlook

July 17, 2001

Conference Call at 2 p.m. PDT, July 17, 2001 – Pixelworks will host a conference call at 2 p.m. PDT, July 17, 2001, which can be accessed at (719) 457-2693 using pass code 689778, or at www.streeffusion.com. A replay will be available by telephone through July 19, 2001, at (719) 457-0820 using code 689778. The Web broadcast will also be available at www.streeffusion.com through July 31, 2001.

Selected Highlights

· Record second quarter revenue of \$22.7 million increases 88 percent over the second quarter of 2000 and 7 percent sequentially; exceeds April outlook of \$22.5 million · Gross profit margin increases to 47.3 percent in the second quarter from 43.4 percent in the first quarter; sixth consecutive quarter of improvement · Record pro forma net income* of \$3.5 million increases for eighth 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., July 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 second quarter ended June 30, 2001.

Revenue for the second quarter of 2001 was \$22.7 million, an 88 percent increase over revenue of \$12.1 million in the second quarter of 2000 and 7 percent increase sequentially from the first quarter of 2001.

Pro forma net income* for the second quarter was \$3.5 million, a 194 percent increase from the second quarter of 2000 and up 14 percent sequentially. Pro forma earnings for the second quarter were \$0.08 per diluted share, up 142 percent from \$0.03 in the second quarter of 2000 and up 9 percent sequentially.

Non-cash charges recorded in the second quarter in accordance with generally accepted accounting principles included \$4.4 million for amortization of goodwill and assembled workforce related to the acquisition of Panstera, Inc., and \$2.5 million for amortization of deferred stock compensation, of which \$2.2 million was related to the acquisition of Panstera, Inc. Including these non-cash charges, net loss for the second quarter was \$3.4 million, or \$0.08 per diluted share, compared to net income of \$0.6 million, or \$0.02 per diluted share, in the second quarter of 2000 and a net loss of \$34.1 million, or \$0.87 per diluted share, in the first quarter of 2001.

"We were very pleased to have another quarter of record revenues despite a very tough economic environment. Our financial performance for the second quarter continued to show that we are executing across all segments of our business," said Allen Alley, President, CEO, and Chairman of Pixelworks. "Our flat panel monitor business was again the fastest growing segment with over 150 percent revenue growth year over year."

"I couldn't be more pleased with the development of the company and our competitive position," Alley added. "The building blocks we have put in place over the last year, in the form of strategic partnerships, the acquisition of Panstera, and other investments both inside and outside the company, have put us in position to continue rolling out the broadest product line-up in the industry over the next twelve months," concluded Alley.

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 June 30, 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.

- The company estimates revenue of approximately \$24.5 to \$25.5 million in the third quarter. Revenue in the fourth quarter is anticipated to increase 8 to 12 percent over the third quarter. Revenue 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, 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 46 to 47 percent in the second half of 2001. Gross profit margins may be higher or lower than expected due to 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 to range from \$9.0 to \$9.2 million in the third quarter, and \$9.5 to \$10.0 million in the fourth quarter.
- 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. The company expects non-cash charges from the acquisition of Panstera, Inc. 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 \$1.0 million per quarter in the third and fourth quarters. This estimate is dependent on no material change to average cash balances and interest rates from those at June 30, 2001.
- The company expects no tax provision will be necessary in 2001.

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. Pixelworks ImageProcessor Architecture powers the world's most highly regarded flat panel display products, including monitors and projectors marketed by Compaq, Dell, NEC-Mitsubishi, Samsung, SANYO, Sony and ViewSonic. 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.

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