UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 31, 2017

PIXELWORKS, INC.
(Exact name of registrant as specified in its charter)

OREGON	000-30269	91-1761992
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

224 Airport Parkway, Suite 400
San Jose, CA 95110
(408) 200-9200
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

EXPLANATORY NOTE

On May 18, 2017, Pixelworks, Inc. ("Pixelworks") entered into an Arrangement Agreement (the "Agreement") to acquire all of the issued and outstanding common shares of ViXS Systems Inc. ("ViXS"), as described in the Current Report on Form 8-K filed by Pixelworks on May 23, 2017 (the "Arrangement"). The final Plan of Arrangement, as approved by the Ontario Superior Court of Justice (Commercial List), was filed as Exhibit 2.2 to the Current Report on Form 8-K filed by Pixelworks on August 8, 2017.

On August 11, 2017, Pixelworks filed an amendment to the Current Report on Form 8-K to provide the financial statements required by Item 9.01(a) and furnish the pro forma financial information required by Item 9.01(b) of Form 8-K relative to the completion of the acquisition previously reported in the Current Report on Form 8-K filed on August 8, 2017. Filed with such amendment were (1) audited consolidated statements of comprehensive income of ViXS for the years ended January 31, 2016 and 2017, (2) audited consolidated statements of financial position of ViXS as of January 31, 2016 and 2017, (3) notes to consolidated financial statements of ViXS, (4) unaudited pro forma condensed combined statement of operations of Pixelworks for the year ended December 31, 2016 and for the three-month period ended March 31, 2017, (5) unaudited pro forma condensed combined balance sheet of Pixelworks as of March 31, 2017, and (6) notes to unaudited pro forma condensed combined financial statements of Pixelworks.

The purpose of this Current Report on Form 8-K is to provide additional updated financial information relating to ViXS and the Arrangement and in connection with the anticipated filing of registration statements on Form S-3 by Pixelworks.

Item 8.01. Other Events.

Filed as Exhibit 99.1 hereto are the Unaudited Interim Condensed Consolidated Financial Statements of ViXS as of and for the three and six-month periods ended July 31, 2017 and related notes thereto.

Filed as Exhibit 99.2 hereto are the Unaudited Pro Forma Condensed Combined Balance Sheet of Pixelworks as of June 30, 2017, the Unaudited Pro Forma Condensed Combined Statement of Operations of Pixelworks for the six months ended June 30, 2017 and the year ended December 31, 2016 and related notes thereto.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Exhibit
99.1	Unaudited Interim Condensed Consolidated Financial Statements of ViXS as of and for the three and six-month periods ended July 31, 2017 and related notes thereto.
99.2	Unaudited Pro Forma Condensed Combined Financial Information of Pixelworks, Inc. as of and for the six months ended June 30, 2017 and the year ended December 31, 2016 and related notes thereto.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	PIXELWORKS, INC. (Registrant)
Dated: October 31, 2017	/s/ Steven L. Moore
	Steven L. Moore *Vice President, Chief Financial Officer, Secretary and Treasurer*

Exhibit 99.1

ViXS SYSTEMS INC.

Unaudited Interim Condensed Consolidated
Financial Statements
July 31, 2017

ViXS Systems Inc.
Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
(unaudited)

Dollar amounts in U.S. dollars *Amounts in thousands, except loss per share*	Note	Three-month Period Ended July 31, 2017	Three-month Period Ended July 31, 2016	Six-month Period Ended July 31, 2017	Six-month Period Ended July 31, 2016
Revenue	3	**$ 2,769**	**$ 7,875**	**$ 7,581**	**$ 13,577**
Cost of sales	12	2,200	5,413	5,486	9,338
Gross margin		**569**	**2,462**	**2,095**	**4,239**
Operating expenses (1)					
Research and development	4	2,225	3,256	4,266	6,228
Selling, general and administrative	4	2,479	1,947	4,740	3,985
Total operating expenses		4,705	5,203	9,007	10,213
Loss before other income (expenses)		**(4,136)**	**(2,741)**	**(6,912)**	**(5,974)**
Other income (expenses)					
Finance income (expense)	7	(1,635)	153	(2,415)	—
Currency gain (loss)		44	(28)	32	113
Gain on sale of MoCA asset	8	0	—	4,786	—
Total other income (expenses)		(1,591)	125	2,403	113
Income (loss) before income taxes		**($ 5,727)**	**($ 2,616)**	**($ 4,509)**	**($ 5,861)**
Income tax expense		(108)	—	(118)	(9)
Net loss for the period		**($ 5,835)**	**($ 2,616)**	**($ 4,627)**	**($ 5,870)**
Other comprehensive loss					
Item subject to reclassification					
Exchange difference on translating foreign operations		—	(60)	3	7
Comprehensive loss for the period		**($ 5,835)**	**($ 2,676)**	**($ 4,624)**	**($ 5,863)**
Loss per share attributed to common equity holders	5				
Basic		($ 0.08)	($ 0.04)	($ 0.06)	($ 0.10)
Diluted		($ 0.08)	($ 0.04)	($ 0.06)	($ 0.10)
Weighted average number of common shares outstanding					
Basic		73,864	60,530	73,597	60,606
Diluted		73,864	60,530	73,597	60,606
(1) Includes share-based transaction expense of:					
Research and development		109	14	201	271
Selling and administrative		224	96	378	369
		$ 333	$ 110	$ 579	$ 640

See accompanying notes to the interim condensed consolidated financial statements.

ViXS Systems Inc.
Interim Condensed Consolidated Statements of Financial Position
(unaudited)
(See Basis of presentation and going concern uncertainty – note 1)

Dollar amounts in U.S. dollars *Amounts in thousands*	Note	As at July 31, 2017	As at January 31, 2017
Assets			
Current assets			
Cash and cash equivalents	11	$ 2,595	$ 2,732
Restricted cash	11	125	125
Trade accounts receivable	9	849	2,626
Other amounts receivable		530	445
Inventories	12	995	3,232
Prepayments		723	951
Total current assets		**5,817**	**10,111**
Non-current assets			
Property, plant and equipment		2,022	2,419
Intangible assets		5,855	6,860
Prepayments		192	203
Total non-current assets		**8,069**	**9,482**
Total assets		**$ 13,886**	**$ 19,593**
Liabilities and shareholders' equity (deficiency)			
Liabilities			
Current liabilities			
Revolving bank loan payable	6	$ 4,046	$ 5,685
Current portion of repayable government assistance	4	189	159
Trade and other payables		2,334	4,018
Deferred revenue		257	173
Total current liabilities		**6,826**	**10,035**
Non-current liabilities			
Accrued non-current liabilities		94	126
Convertible debt	7	6,850	4,685
Warrant liability	7	—	130
Repayable government assistance	4	930	1,388
Total non-current liabilities		**7,874**	**6,329**
Total liabilities		**14,700**	**16,364**
Shareholders' equity (deficiency)			
Issued capital		160,304	160,081
Contributed surplus		15,850	15,492
Cumulative translation adjustment		(58)	(61)
Deficit		(176,910)	(172,283)
Total shareholders' equity (deficiency)		**(814)**	**3,229**
Total liabilities and shareholders' equity (deficiency)		**$ 13,886**	**$ 19,593**

See accompanying notes to the interim condensed consolidated financial statements.

ViXS Systems Inc.
Interim Condensed Consolidated Statements of Changes in Equity (Deficiency)
(unaudited)

Dollar amounts in U.S. Dollars Amounts in Thousands	Notes	Number of Common Shares	Issued Capital	Contributed Surplus	Cumulative Translation Adjustment	Deficit	Total Equity (Deficiency)
Balance, January 31, 2016		**60,452**	**$ 157,077**	**$ 14,713**	**($ 93)**	**($ 161,327)**	**$ 10,370**
Comprehensive loss for the period		—	—	—	7	(5,870)	(5,863)
Shares/RSU vested		130	113	(113)			
Share-based payment transactions	4	—	(3)	640	—	—	637
Balance, July 31, 2016		**60,582**	**$ 157,187**	**$ 15,240**	**($ 86)**	**($ 167,197)**	**$ 5,144**
Balance, January 31, 2017		**73,317**	**160,081**	**15,492**	**(61)**	**(172,283)**	**3,229**
Comprehensive loss for the period		—	—	—	3	(4,627)	(4,624)
Shares/RSU vested		675	223	(221)		—	2
Share-based payment transactions	4	—		579		—	579
Balance, July 31, 2017		**73,992**	**$ 160,304**	**$ 15,850**	**($ 58)**	**($ 176,910)**	**($ 814)**

See accompanying notes to the interim condensed consolidated financial statements.

ViXS Systems Inc.
Interim Condensed Consolidated Statements of Cash Flows
(unaudited)

Dollar amounts in U.S. dollars *Amounts in thousands*	Note	Three-month Period Ended July 31, 2017	Three-month Period Ended July 31, 2016	Six-month Period Ended July 31, 2017	Six-month Period Ended July 31, 2016
Operating activities					
Net loss for the period		($ 5,835)	($ 2,616)	($ 4,627)	($ 5,870)
Add (deduct) items not involving cash					
Depreciation of property, plant and equipment		56	88	116	164
Depreciation of mask costs		124	79	249	135
Amortization of intangible assets		473	253	946	396
Decrease (increase) in non-current prepayments		272	(485)	11	(140)
Adjustment to provision for repayable government assistance	4	(2)	—	(344)	(272)
Share-based transaction expense		334	110	579	640
Listing fees		—	—	—	15
Finance expense (income)		1,635	(153)	2,415	1
Loss on disposal of capital assets		31	—	31	—
Gain on sale of MoCA asset	8	(0)	—	(4,786)	—
Decrease in trade and other receivables and current prepayments		1,396	4,965	1,849	4,752
Decrease (increase) in inventories	12	581	(119)	2,237	(777)
Increase (decrease) in trade and other payables		(1,082)	13	(1,810)	(668)
Increase (decrease) in deferred revenue		(91)	98	84	(45)
Cash flows provided by (used in) operating activities		**(2,108)**	**2,233**	**(3,050)**	**(1,669)**
Investing activities					
Interest received		—	—	8	1
Proceeds from sale of MoCA asset	8	—	—	5,000	—
Disposal (acquisition) of property, plant and equipment		2	(4)	—	(1,419)
Disposal (acquisition) of intangible assets		—	(2,686)	59	(2,686)
Cash flows provided by (used in) investing activities		**2**	**(2,690)**	**5,067**	**(4,104)**
Financing activities					
Increase (decrease) in bank borrowings	6	(1,601)	—	(1,639)	1000
Decrease in provision for repayable government assistance	8	(43)	—	(83)	—
Interest and other finance costs		(264)	(145)	(380)	(275)
Cash flows provided by (used in) financing activities		**(1,908)**	**(145)**	**(2,102)**	**725**
Net decrease in cash and cash equivalents		(4,013)	(602)	(84)	(5,048)
Effect of foreign exchange		(27)	(66)	(52)	(42)
Cash and cash equivalents, beginning of period		$ 6,761	2,850	2,857	7,272
Cash and cash equivalents, end of period		**$ 2,721**	**$ 2,182**	**$ 2,721**	**$ 2,182**
Interest paid (1)		279	68	234	108
Interest received (1)		(0)	1	8	1
Income taxes paid (1)		—	—	10	9

(1) Amounts paid and received for interest and paid for income taxes were reflected as operating cash flows in the interim Condensed Consolidated Statements of Cash Flows.

See accompanying notes to the interim condensed consolidated financial statements.

1. Basis of presentation

The unaudited interim condensed consolidated financial statements of ViXS Systems Inc. (the "Company" or "ViXS") for the three and six-month periods ended July 31, 2017 are presented in thousands of U.S. dollars, except for shares, units and per share amounts or unless otherwise indicated.

These unaudited interim condensed consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS") International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB").

The unaudited interim condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in the Company's consolidated financial statements for the year ended January 31, 2017, prepared in accordance with IAS 34, and the presentation of these interim condensed consolidated financial statements is consistent with, and should be read in conjunction with, those annual financial statements. The Company's consolidated financial statements for the year ended January 31, 2017 are available at www.sedar.com.

The unaudited interim condensed consolidated financial statements of the Company for the three and six months ended July 31, 2017 and 2016 were authorized for issue in accordance with a resolution of the Company's Board of Directors on October 30, 2017.

The preparation of unaudited interim condensed consolidated financial statements in accordance with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies, if any, as at the date of the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are consistent with those disclosed in the notes to the consolidated financial statements for the year ended January 31, 2017.

Going concern uncertainty

These unaudited interim condensed consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These unaudited interim condensed consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at July 31, 2017, the Company has not yet achieved ongoing profitable operations, and has an accumulated deficit of $176.2 million. Whether, and when, the Company can attain sustainable profitability and positive cash flows from operations is dependent on the size and timing of incremental revenue growth, which has a degree of uncertainty that casts significant doubt upon the Company's ability to continue as a going concern. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and, if need be, obtain necessary financing to do so. While the Company has been successful in obtaining financing to date, there can be no assurance that it will be able to do so in the future.

On May 8, 2017, the Company completed an amendment to the Comerica loan agreement, which extended the term of the loan to October 31, 2017 and reduced the maximum loan amount to $6.8 million.

On August 2, 2017, Pixelworks Inc. ("Pixelworks"), a publicly traded company on NASDAQ, completed the acquisition of ViXS (the "Pixelworks Transaction"), whereby it acquired all of the outstanding common shares of ViXS in an all-stock transaction consisting of approximately 3.7 million shares of Pixelworks common stock valued at approximately $17.7 million. ViXS shareholders received 0.04836 a share of Pixelworks' common stock for each share of ViXS. The exchange ratio is equivalent to consideration of $0.23 per ViXS common share, based on the closing price of Pixelworks on August 1, 2017. Upon closing, ViXS shares were delisted from the Toronto Stock Exchange and ViXS became a wholly owned subsidiary of Pixelworks. In addition, Pixelworks repaid the Company's $4.1 million outstanding bank loan facility with Comerica (see Note 6), cancelled all outstanding warrants associated with the January and September Private Placements (see Note 7), and issued approximately

200,000 restricted stock units ("RSUs") to former holders of ViXS' unvested restricted stock units. Subsequent to July 31, 2017, the Company repaid $0.9 million ($1.1 million CAD) of outstanding convertible debt and accrued interest (see Note 13).

With these new funds and the acquisition of the Company by Pixelworks, the Company believes it will have sufficient funds to cover planned operations through the next twelve-month period from anticipated revenue growth of new products during fiscal 2018 and through continued credit access from its commercial bank. However, these plans may be adversely impacted by uncertain market conditions, credit access, and adverse results from operations. The certainty of these matters cannot be predicted at this time and may require the Company to raise additional capital in order to fund its operations.

a) New standards, interpretations and amendments adopted by the Company

The accounting policies followed in these unaudited interim condensed consolidated financial statements are consistent with those used to prepare the annual consolidated financial statements for the year ended January 31, 2017.

b) Accounting standards and amendments issued but not yet adopted

i) IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 provides guidance on revenue recognition and relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to annual reporting periods beginning on or after January 1, 2018. The effective date of this standard is for the Company's fiscal year commencing February 1, 2018. The Company is in the process of assessing the impact that this standard will have on the unaudited interim condensed consolidated financial statements.

ii) IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9, as issued in 2014, introduces new requirements for the classification and measurement of financial instruments, a new expected loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that is caused by changes in an entity's own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is in the process of evaluating the impact of this standard on its unaudited interim condensed consolidated financial statements.

iii) IFRS 16, *Leases* ("IFRS 16")

IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Company has not yet assessed the impact this standard will have on the unaudited interim condensed consolidated financial statements.

2. Seasonality and variability of results

The Company's revenue, operating expenses and loss from operations have fluctuated from quarter to quarter as a result of the timing of new customer designs incorporating its products entering production, fluctuating demand for customers' products, natural disasters and the timing of operating expenditures. It is expected that variations will continue.

3. Operating segment information

The Company is organized and operates as a single business unit for management purposes.

Geographic information

Substantially all of the Company's long-lived assets are located in Canada.

Revenue is attributed to a geographic location based on direct purchasers' bill-to locations, which may be different than the geographic location in which the products are consumed. The geographic location of a distributor's customers may be different from the geographic location of the distributor. The following table is based on the geographic location of the direct purchasers of the Company's products.

Geographic revenue information	Three-month Period Ended July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016	Six-month Period Ended July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
Taiwan	$ 66	$4,963	2.4%	63.0%	$2,318	$ 8,313	30.6%	61.2%
United States	208	173	7.5%	2.2%	462	405	6.1%	3.0%
Canada	461	764	16.6%	9.7%	1,230	1,054	16.2%	7.8%
Malaysia	602	0	21.8%	0.0%	750	0	9.9%	0.0%
Japan	810	820	29.3%	10.4%	1,196	1,232	15.8%	9.1%
China	10	55	0.4%	0.7%	568	709	7.5%	5.2%
Europe	87	879	3.2%	11.2%	178	464	2.4%	3.4%
Other	524	221	18.9%	2.8%	878	1,400	11.6%	10.3%
Total revenue	$2,769	$7,875	100.0%	100.0%	$7,581	$13,577	100.0%	100.0%

Major customers

The Company had certain customers whose revenue individually represented 10% or more of the Company's total revenue, as follows:

For the three months ended July 31, 2017, two customers accounted for 41.4% of revenue and for the three months ended July 31, 2016, two customers accounted for 70.2% of revenue. For the six-month period ended July 31, 2017, four customers accounted for 52.6% of revenue and for the six-month period ended July 31, 2016, two customers accounted for 69.0% of revenue.

4. Selected expense information

a) Government assistance	Three-month Period Ended July 31, 2017	July 31, 2016	Six-month Period Ended July 31, 2017	July 31, 2016
Canadian investment tax credits recognized	$ 0	$ 0	($ 140)	($ 239)
Amounts recognized under specific programs	0	0	0	(509)
Adjustment to provision for repayable government assistance	(2)	(54)	(344)	183
Government assistance deducted from research and development expenses	**(2)**	**(54)**	**(484)**	**(565)**

Canadian investment tax credits

As a publicly listed company, ViXS is not eligible to generate federal Canadian refundable investment tax credits for research and development costs; however, the Company remains eligible for refundable Ontario Innovation Tax Credits. These research and development costs will also generate non-refundable federal tax credits that can only be applied against income taxes payable. Recognition of these non-refundable tax credits is subject to estimates regarding the probability of their realization. As the Company does not have a prior history of non-refundable tax credits realized, or a history of taxes payable, no non-refundable tax credits have been accrued as at July 31, 2017.

Canada-Israel Industrial Research and Development Foundation ("CIIRDF")

On March 17, 2010, ViXS entered into an agreement with CIIRDF for research and development funds pertaining to a joint project. Under this agreement, CIIRDF funded via grant, a sum of $0.3 million for half of the proposed project expenditures. The project ended on October 31, 2011, with all funds having been expended during that project period. This funding was repayable through a royalty based on sales of products that were developed under the project, up to the amount received, without interest. However, there was no commercialization of the technology or innovations developed under the project, nor are there any future plans to do so, given that the technology is now mainly obsolete. The Company has shifted its strategy and terminated similar legacy projects. Therefore, on April 30, 2017, the Company removed the grant liability in the amount of $0.3 million and recorded a credit to research and development expenses.

Technology Partnership Canada ("TPC") Agreement

During the three-month period ended July 31, 2017, the Company reassessed its estimate of future royalties potentially payable to TPC. The Company decreased the total estimated liability by $45k in the three-month period ended July 31, 2017 (July 31, 2016: $0.1 million decrease), which was recorded as a reduction to research and development costs.

b) Share-based transaction expense

The Company has adopted a Long-Term Incentive Plan for employees and directors, which allows various forms of long-term equity incentives to be awarded, including share options, non-statutory stock options, incentive stock options, share appreciation rights, restricted share units, performance units, and other share-based awards.

Share options

Share-based transaction expense (related to the share options) for the three and six-month periods ended July 31, 2017 and 2016 is disclosed in the following table:

Share-based transaction expense (recovery)	**Three-month Period Ended**		**Six-month Period Ended**	
	July 31, 2017	**July 31, 2016**	**July 31, 2017**	**July 31, 2016**
Included in research and development expenses	$ 3	($ 41)	$ 4	$ 153
Included in selling, general and administrative expenses	18	32	34	257
Total share-based transaction expense	**$ 20**	**($ 9)**	**$ 37**	**$ 410**

On February 1, 2016, employees voluntarily surrendered 2,257,194 underwater share options that had an exercise price above $1.17 ($1.27 CAD) without receiving and without the expectation to receive any cash-based awards, securities or other consideration. These options were immediately cancelled and resulted in a charge to income of $0.2 million during the fiscal year ending January 31, 2017.

The following table shows the number and weighted average exercise prices of and movements in share options:

	Number (000's) #	Weighted Average Exercise Price $
Outstanding, January 31, 2016	**3,956**	**2.03**
Cancelled	(2,338)	3.44
Expired	(5)	2.28
Outstanding, July 31, 2016	**1,613**	**1.30**
Outstanding, January 31, 2017	**1,449**	
Forfeited	(71)	1.64
Expired	(4)	1.75
Outstanding, July 31, 2017	**1,374**	**0.87**
Exercisable, July 31, 2016	529	2.12
Exercisable, July 31, 2017	**820**	**1.14**

The following table shows summary information about share options outstanding as at July 31, 2016:

	Outstanding Options			Exercisable Options	
Exercise Prices	**Number (000's)**	**Weighted Average Remaining Contractual Term (yrs)**	**Weighted Average Exercise Price ($)**	**Number (000's)**	**Weighted Average Exercise Price ($)**
$0.40 - 0.84	800	9.1	0.40	—	—
0.85 - 1.17	543	7.5	1.03	301	1.07
1.18 - 1.75	42	1.3	1.75	42	1.75
1.76 - 7.09	209	6.9	2.69	166	2.69
7.10	1	3.6	7.10	1	7.10
7.11 - 7.23	12	5.2	7.23	12	7.23
7.24 - 10.00	6	3.9	10.00	7	10.00
$0.40 – 10.00	**1,613**			**529**	

The following table shows summary information about share options outstanding as at July 31, 2017:

Exercise prices	Outstanding options			Exercisable options	
	Number (000's)	Weighted average remaining contractual term (years)	Weighted average exercise price ($)	Number (000's)	Weighted average exercise price ($)
$0.00-0.42	**800**	**8.2**	**0.33**	**366**	**0.33**
0.85 - 1.17	**404**	**6.5**	**1.04**	**284**	**1.07**
1.18 - 1.75	**38**	**1.7**	**1.65**	**38**	**1.65**
1.76 - 7.09	**119**	**5.9**	**2.81**	**119**	**2.81**
7.10-9.99	**8**	**4.2**	**7.23**	**8**	**7.23**
10.00	**5**	**2.9**	**10.00**	**5**	**10.00**
$1.12-10.00	**1,374**			**820**	

Restricted Share Units ("RSUs")

RSUs entitle participants the conditional right to receive one common share of the Company for each share unit. RSUs vest over a 24-month or 36-month period on the anniversary of the grant date. RSUs are measured at the grant date. The following table shows summary information about RSUs outstanding as at July 31, 2017:

Share-based transaction expense - RSU portion	Three-month Period Ended		Six-month Period Ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
Included in research and development expenses	$ 106	$ 55	$ 197	$ 118
Included in selling, general and administrative expenses	206	64	344	112
Total share-based transaction expense	**$ 313**	**$ 119**	**$ 542**	**$ 230**

A summary of RSU activity is presented below:

	Number (000's) #
Outstanding, January 31, 2016	**1,752**
Granted	1,106
Cancelled	(199)
Exercised	(154)
Outstanding, July 31, 2016	**2,505**
Weighted average contractual life (years)	2.06
Outstanding, January 31, 2017	**7,493**
Granted	289
Vested	(675)
Forfeited	(213)
Outstanding, July 31, 2017	**6,894**
Weighted average contractual life (years)	1.40

5. Loss per share

Basic loss per share amounts are calculated by dividing net loss for the period attributable to common equity holders by the weighted average number of common shares outstanding during that period.

Diluted loss per share amounts are calculated by dividing the net loss attributable to common equity holders by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares that would be issued on conversion of potential common shares into common shares, provided the inclusion of the potential common shares is not anti-dilutive.

	Three-month Period Ended		Six-month Period Ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
Net loss attributable to common equity holders for basic earnings	($ 5,835)	($ 2,616)	($ 4,627)	($ 5,870)
Weighted average number of common shares adjusted for the effect of dilution	73,864	60,530	73,597	60,606
Loss per share	($ 0.08)	($ 0.04)	($ 0.06)	($ 0.10)

6. Revolving bank loan facility

On May 8, 2017, the Company completed an amendment to the loan agreement, which reduced the revolving bank loan facility from $8 million to $6.8 million and extended the term of the loan to October 31, 2017.

On August 2, 2017, the entire $4.1 million balance outstanding as at July 31, 2017 was repaid to Comerica upon closing of the Pixelworks Transaction (see Note 13).

	Interest rate (%)	Maturity	July 31, 2017	January 31, 2017
$6.8 million revolving loan	Prime + 2%	October 31, 2017	4,046	5,685
			$ 4,046	**$ 5,685**

Interest rate for the periods ended July 31, 2017 and 2016 were 6.11% and 4.5% per annum respectively.

7. Convertible debt and warrant liability

January Private Placements

On January 12, 2016, ViXS completed two non-brokered private placements (collectively the “January Private Placements”), raising aggregate gross proceeds of approximately $4.9 million ($6.9 million CAD). Participants in the January Private Placements were primarily existing shareholders and senior management of the Company and the net proceeds were used to strengthen the Company’s financial position and fund working capital needs.

The January Private Placements consisted of a private placement (the “January Convertible Debenture Private Placement”) of secured subordinated convertible debentures (the “January Convertible Debentures”) and a private placement (the “January Unit Private Placement”) of units (the “January Units”). All securities sold in the Private Placements, including any shares issued on the conversion of the Convertible Debentures and the exercise of common share purchase warrants issued under the Private Placements, are subject to applicable four-month hold periods pursuant to Canadian securities laws and such other hold periods in other jurisdictions applicable to the purchaser.

The January Private Placements included the issuance of common share purchase warrants (as described below) that could, assuming the exercise of all of the common share purchase warrants issued pursuant to the January Private Placements, generate additional aggregate gross proceeds of $2.0 million ($2.8 million CAD).

January Convertible Debenture Private Placement

Under the January Convertible Debenture Private Placement, the Company issued $2.4 million ($3.4 million CAD) principal amount of secured subordinated Convertible Debentures. The January Convertible Debentures will mature four years from the date of issuance on January 12, 2020, and bear interest at the rate of 10% per annum, payable semi-annually in arrears. If, at any time after the closing of the January Convertible Debenture Private Placement, the market price of the common shares of the Company exceeds $0.80 CAD for 15 consecutive trading days, then the interest rate will be reduced to a fixed rate of 1% per annum. Upon closing of the Pixelworks Transaction, $0.80 CAD market price of the common shares was amended to be the US dollar equivalent (based on the exchange rate quoted by the Bank of Canada at the relevant time) of Pixelworks' market price of $16.54 CAD.

The January Convertible Debentures are convertible into common shares at a conversion price $0.34 CAD, in whole or in multiples of 0.5 million CAD. Upon closing of the Pixelworks Transaction, the $0.34 CAD conversion price was amended to be the US dollar equivalent (based on the exchange rate quoted by the Bank of Canada at the relevant time) of Pixelworks' market price of $7.03 CAD.

The Company may, at its option, redeem the January Convertible Debentures in whole or in multiples of $ 0.5 million CAD at the following times and prices:

- Between April 30, 2016 and January 12, 2017, at a redemption price equal to 110% of the principal amount of the January Convertible Debentures plus accrued and unpaid interest; and
- Between January 13, 2017 and January 12, 2020, at a redemption price equal to the principal amount of the January Convertible Debentures plus accrued and unpaid interest.

The January Convertible Debentures are secured by a general security interest in all of the assets of the Company that is subordinated to the security interest of a senior lender to the Company.

In connection with the January Convertible Debenture Private Placement, the Company issued 2,517,842 common share purchase warrants (the "January Convertible Debenture Warrants"). The January Convertible Debenture Warrants are exercisable for a period of 12 months from the issue date at an exercise price of $0.60 CAD per common share. In connection with a subsequent September 9, 2016 private placement, the term was extended from January 11, 2017 to September 9, 2017, in exchange for consent on subordination of the new debentures. If the market price of a common share exceeds $0.65 CAD for 10 consecutive trading days, each Convertible Debenture Warrant will become exercisable at any time during the subsequent 20-day period. Any January Convertible Debenture Warrants not exercised during the 20-day period shall expire.

The aggregate maximum number of common shares issuable in connection with the conversion of the January Convertible Debentures is 10,071,371, and the exercise of January Convertible Debenture Warrants is 2,517,842. Upon closing of the Pixelworks Transaction, all outstanding January Convertible Debenture Warrants were cancelled, as they were underwater and due to expire on September 9, 2017.

January Unit Private Placement

Under the January Unit Private Placement, the Company issued 10,075,336 Units at a price of $0.3453 CAD per Unit for gross proceeds of $2.5 million ($3.5 million CAD). Each Unit consisted of one common share of the Company and one-quarter of one common share purchase warrant (each whole warrant a "January Unit Warrant"). Each Unit Warrant enabled the holder to acquire one additional common share of the Company at an exercise price of $0.50 CAD per common share for a period of 12 months from the issue date. The January Unit Warrants were not exercised and expired on January 12, 2017.

The costs to complete the January Private Placements totalled $0.1 million, which consisted primarily of legal fees, and were charged to finance costs.

September Private Placements

On September 9, 2016, ViXS completed the first tranche of two non-brokered private placements (collectively the “September Private Placements”), raising aggregate gross proceeds of approximately $5.2 million ($6.64 million CAD). Participants in the September Private Placements were primarily new and strategic investors along with senior management of the Company.

The September Private Placements consisted of a private placement (the “September Convertible Debenture Private Placement”) of secured subordinated convertible debentures (the “September Convertible Debentures”) and a private placement (the “September Unit Private Placement”) of units (the “September Units”). All securities sold in the September Private Placements, including any shares issued on the conversion of the September Convertible Debentures and the exercise of common share purchase warrants issued under the September Private Placements, are subject to applicable four-month hold periods pursuant to Canadian securities laws and such other hold periods in other jurisdictions applicable to the purchaser.

On October 31, 2016, the Company completed the second tranche of its September Unit Private Placement, raising aggregate gross proceeds of approximately $0.4 million ($0.5 million CAD). On November 21, 2016, ViXS completed the second tranche of its September Convertible Debenture Private Placement, raising aggregate gross proceeds of approximately $0.4 million ($0.5 million CAD).

Total gross proceeds from both September Private Placements were $5.9 million ($7.7 million CAD). The September Private Placements included the issuance of common share purchase warrants (as described below) that could, assuming the exercise of all of the common share purchase warrants issued pursuant to the Private Placements, generate additional aggregate gross proceeds of $2.5 million ($3.2 million CAD). Upon closing of the Pixelworks Transaction, all outstanding common share purchase warrants were cancelled, as they were underwater and due to expire on September 9, 2017.

September Convertible Debenture Private Placement

Under the September Convertible Debenture Private Placement, the Company issued $3.2 million ($4.2 million CAD) principal amount of secured subordinated September Convertible Debentures. The September Convertible Debentures will mature three years from the date of issuance on September 9, 2016, and bear interest at the rate of 10% per annum, payable semi-annually in arrears. If, at any time after the closing of the Convertible Debenture Private Placement, the market price of the common shares of the Company exceeds CAD $0.80 for 15 consecutive trading days, then the interest rate will be reduced to a fixed rate of 1% per annum. Upon closing of the Pixelworks Transaction, the $0.80 CAD market price was amended to be the US dollar equivalent (based on the exchange rate quoted by the Bank of Canada at the relevant time) of Pixelworks’ market price of $16.54 CAD.

The Convertible Debentures are convertible into common shares at a conversion price $0.35 CAD, in whole or in multiples of $0.5 million CAD. Upon closing of the Pixelworks Transaction, the $0.35 CAD conversion price was amended to be the US dollar equivalent (based on the exchange rate quoted by the Bank of Canada at the relevant time) of Pixelworks’ market price of $7.24 CAD.

The Company may, at its option, redeem the Convertible Debentures in whole or in multiples of $0.5 million CAD at the following times and prices:

- Between December 8, 2016 and September 9, 2017, at a redemption price equal to 110% of the principal amount of the September Convertible Debentures plus accrued and unpaid interest; and
- Between September 10, 2017 and September 9, 2019, a redemption price equal to the principal amount of the September Convertible Debentures plus accrued and unpaid interest.

The September Convertible Debentures are secured by a general security interest in all of the assets of the Company, which is subordinated to the security interest of a senior lender to the Company.

In connection with the September Convertible Debenture Private Placement, the Company issued 2,999,991 common share purchase warrants (the "September Convertible Debenture Warrants"). The September Convertible Debenture Warrants are exercisable for a period of 12 months from the issue date at an exercise price of $0.60 CAD per common share. If the market price of a common share exceeds $0.65 CAD for 10 consecutive trading days, each Convertible Debenture Warrant will become exercisable at any time during the subsequent 20-day period. Any Convertible Debenture Warrants not exercised during the 20-day period shall expire. Upon close of the Pixelworks Transaction, all outstanding September Convertible Debenture Warrants were cancelled, as they were underwater and due to expire on September 9, 2017.

The aggregate maximum number of common shares issuable in connection with the conversion of the September Convertible Debentures is 11,999,994.

September Unit Private Placement

Under the September Unit Private Placement, the Company issued 11,583,333 Units at a price of $0.30 CAD per Unit for gross proceeds of $2.7 million ($3.5 million CAD). Each Unit consisted of one common share of the Company and one-quarter of one common share purchase warrant (each whole warrant a "Unit Warrant"). Each Unit Warrant will enable the holder to acquire one additional common share of the Company at an exercise price of $0.50 CAD per common share for a period of 12 months from the issue date. Upon closing of the Pixelworks Transaction, all outstanding Unit Warrants were cancelled.

The costs to complete the private placements totaled $0.1 million, which consisted primarily of legal fees, and were charged to finance costs.

The Company has determined the Convertible Debentures and related Convertible Debenture Warrants meet the definition of a financial liability due to the variability of the conversion ratio as a result of the potential differences in the foreign exchange rate. Accordingly, the fair value of the Convertible Debentures and Convertible Debenture Warrants is treated as a financial liability measured at fair value through profit or loss. The fair value of the Convertible Debentures and Convertible Debenture Warrants is classified as Level 3 in the fair value hierarchy.

The Company has determined the shares issued as part of the Unit Private Placements meet the definition of equity. The related warrants have been determined to be a financial liability due to the variability of the conversion ratio as a result of the differences in the foreign exchange rate. Accordingly, the fair value of the Unit Warrants is treated as a financial liability measured at fair value through profit or loss. The fair value of the Unit Warrants financial liability is classified as Level 3 in the fair value hierarchy.

The gross proceeds on issuance of the Convertible Debenture Private Placements were allocated as follows:

	Convertible Debenture Private Placement	Convertible Debenture Private Placement Warrants
Convertible Debentures issued January, 2016	$ 1,994	$ 29
Convertible Debentures issued September, 2016	2,871	21
Convertible Debentures issued October, 2016	407	1
Total	$ 5,272	$ 51

The gross proceeds on issuance of the Unit Private Placements were allocated as follows:

	Unit private Placement	Unit Private Placement Warrants
Units issued January, 2016 (10,075,336 units)	$ 2,418	30
Units issued September, 2016 (9,800,000 units)	2,251	29
Units issued October, 2016 (1.783.333 units)	364	5
Total	$ 5,033	64

A fair value adjustment for the three and six-month periods ended July 31, 2017 and 2016 have been reflected in finance expense:

	Three-month Period Ended		**Six-month Period Ended**	
	July 31, 2017	**July 31, 2016**	**July 31, 2017**	**July 31, 2016**
January 2016 Private Placement	$ 445	($ 298)	$ 1,310	$ 4
September 2016 Private Placement	833	—	634	—
October 2016 Private Placement	93	—	91	—
Total	$ 1,371	($ 298)	$ 2,035	$ 4

Subsequent to July 31, 2017, the Company repaid $0.9 million ($1.1 million CAD) of outstanding convertible debt.

8. Sale of XConnex (MoCA) Product Line

On April 12, 2017, ViXS announced it had sold its legacy XConnex (MoCA) product line to Maxlinear, Inc. for $5.0 million in cash, which included a non-exclusive patent license limited to the manufacturing and implementation of that sold XConnex (MoCA) business. In addition to the $5.0 million, this sale freed up a significant amount of working capital previously needed to support MoCA customers, including reimbursement on certain working capital transferred after the end of the quarter.

9. Financial instruments and risk management

The Company's financial instruments consist of cash and cash equivalents (including restricted cash), trade accounts receivable and other amounts receivable, repayable government assistance, trade and other payables and convertible debentures and warrants. The carrying values of cash and cash equivalents, trade accounts receivable, other amounts receivable and trade and other payables approximate their fair value due to their immediate or short-term maturity. The fair value of all other financial instruments within the Company's consolidated financial statements is not materially different from their carrying amount.

The carrying value of repayable government assistance comprises the present value of the estimated future royalty amounts payable to TPC during the period from May 31, 2014 to January 31, 2023 based on estimated future revenue of the Company (see Note 4)

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Board of Directors reviews and adopts policies for managing each of these risks, which are summarized below.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises four types of risk: interest rate risk, foreign currency risk, credit risk and liquidity risk. Financial instruments affected by market risk include loans and borrowings and deposits.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's bank debt obligations with floating interest rates.

Interest rate sensitivity

The Company has exposure to variable interest rates on its Comerica Bank revolving loan. Based on its historic level of borrowings, the Company does not believe it has a material sensitivity to changes in interest rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (where revenue and expenses are denominated in a different currency from the Company's local currency), amounts due from or payable to Canadian governments, amounts owing by the Company denominated in Canadian dollars, including the convertible debenture and warrant liabilities and the Company's net investments in foreign subsidiaries. Management believes the foreign exchange risk derived from currency conversions is low and, therefore, does not hedge its foreign exchange risk.

Of the Company's accounts receivable as at July 31, 2017, 14.3% is denominated in Canadian dollars (January 31, 2017: 9.3%) and 0.8% is denominated in Japanese yen (January 31, 2017: 0.2%).

Of the Company's trade and other payables as at July 31, 2017, 19.1% is denominated in Canadian dollars (January 31, 2017: 7.5%).

Of the Company's cash and cash equivalents as at July 31, 2017, 16.6% is denominated in Canadian dollars (January 31, 2017: 0.6%), 0.2% in Japanese yen (January 31, 2017: 0.4%), 4% in Hong Kong dollars (January 31, 2017: 2.3%), 0.6% in euros (January 31, 2017: 0.5%) and 0.1% in Taiwan dollars (January 31, 2017: 1.5%).

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables and amounts receivable for investment tax credits and other government assistance) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade accounts receivable

Customer credit risk is managed through the Company's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria. The Company periodically insures its non-North American trade receivables against non-payment.

Outstanding customer receivables are regularly monitored. Shipments to major customers are not generally covered by letters of credit or other forms of credit insurance. The requirement for an impairment adjustment is analyzed at each reporting date on an individual basis.

Accounts receivable

	July 31, 2017	January 31, 2017
Current	$ 724	$ 2,490
30-60 days	105	136
61-90 days	—	—
Over 90 days	20	—
	$ 849	**$ 2,626**

Financial instruments and cash deposits

Credit risk from balances on deposit with banks and financial institutions is managed in accordance with the Company's policies. Investments of surplus funds are made only with approved counterparties and within credit limits approved for each of those counterparties. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty failure. Under the terms of its loan agreement with Comerica Bank, the Company must hold its funds in the accounts of the lending bank, with limited exceptions.

Liquidity risk

The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents, managing cash from operations and, if required, through financing activities. As at July 31, 2017, the Company was holding cash and cash equivalents of $2.7 million (January 31, 2017: $2.9 million).

10. Commitments and contingencies

The Company has entered into commercial leases on certain facilities and for technology license obligations. These leases have an average life of between three and six years with no renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases. The following table describes the Company's commitments to settle contractual obligations as at July 31, 2017, excluding estimated liability for contingently repayable government assistance (1):

	<1 Yr 7/31/2017	**1-2 Yrs 7/31/2018**	**3-5 Yrs 7/31/2022**	**Total**
Operating leases	$ 825	$ 773	$ 1,432	$3,030
Technology license obligations	1,206	746	341	2,293
Purchase obligations	747	—	—	747
Total:	**$ 2,778**	**$ 1,519**	**$ 1,773**	**$6,071**

(1) The actual amount of government assistance to be repaid in each year will be calculated as follows: a base royalty amount of $3.3 million CAD ($2.7 million) is payable in quarterly instalments until January 31, 2023. An additional royalty based on 0.5% of the Company's annual gross revenue in excess of $75.0 million is due within 120 days of each fiscal year ending January 31, 2014 to 2023. In total, the maximum royalty amount repayable is $6.0 million CAD ($4.8 million, based on the closing Bank of Canada exchange rate of 0.80341 as at July 31, 2017).

The Company may be involved in legal proceedings from time to time arising in the ordinary course of its business. Typically, the amount of ultimate liability with respect to these actions will not, in the opinion of management, materially affect the Company's financial position or results of operations.

Purchase commitments

As at July 31, 2017, the Company had commitments of $0.7 million to purchase goods and services in the ordinary course of business that had not yet been received or provided, primarily related to blanket purchase orders for inventory purchases to be drawn down over the next year.

11. Restricted cash

Cash of $125,000 represents amounts restricted for the future incentive payments to certain employees involved in the development of specified products to be paid out upon acceptance of the final product by the Company's customer.

On August 9, 2017, the Company received final customer acceptance and released the amount.

12. Inventory

During the quarter, the Company wrote-down $0.6 million in inventory that the Company has decided to discontinue. This write-down was recognized as an expense within cost of goods sold in the statement of loss and comprehensive loss.

13. Subsequent events

On August 2, 2017, Pixelworks Inc. ("Pixelworks"), a publicly traded company on NASDAQ, completed the acquisition of ViXS (the "Pixelworks Transaction"), whereby it acquired all of the outstanding common shares of ViXS in an all-stock transaction consisting of approximately 3.7 million shares of Pixelworks common stock valued at approximately $17.7 million. ViXS shareholders received 0.04836 a share of Pixelworks' common stock for each share of ViXS. The exchange ratio is equivalent to consideration of $ 0.23 per ViXS common share, based on the closing price of Pixelworks on August 1, 2017. Upon closing, ViXS shares were delisted from the Toronto Stock Exchange and ViXS became a wholly owned subsidiary of Pixelworks. In addition, Pixelworks repaid the

Company’s $4.1 million outstanding bank loan facility with Comerica (see Note 6), cancelled all outstanding common share purchase warrants (see Note 7), and issued approximately 200,000 RSUs to former holders of ViXS’ unvested restricted stock units. Subsequent to July 31, 2017, the Company repaid $0.9 million ($1.1 million CAD) of outstanding convertible debt and accrued interest.

PIXELWORKS, INC. AND VIXS SYSTEMS INC.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On August 2, 2017, Pixelworks, Inc. ("Pixelworks") acquired 100% of the outstanding shares of ViXS Systems Inc. ("ViXS") pursuant to an Arrangement Agreement (the "Agreement" and the "Acquisition"). The following unaudited pro forma condensed combined financial statements (the "Pro Forma Statements") are based on the respective historical consolidated financial statements and the accompanying notes of Pixelworks and ViXS. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2016 and the six months ended June 30, 2017 were prepared to reflect the Acquisition as if it had been completed on January 1, 2016, and the unaudited pro forma condensed combined balance sheet was prepared to reflect the Acquisition as if it had been completed on June 30, 2017.

The Pro Forma Statements, although helpful in illustrating the financial characteristics of the Combined Company under one set of assumptions, do not reflect the benefits of any expected cost savings (or associated costs to achieve such savings), opportunities to earn additional revenue, or other factors that may result from the Acquisition and, accordingly, do not attempt to predict or suggest future results. The Pro Forma Statements also exclude the effects of costs associated with any restructuring or integration activities or asset dispositions resulting from the Acquisition, as they are not currently known, are expected to be non-recurring, and will not have been incurred at the closing date of the Acquisition. However, such costs could affect the Combined Company following the Acquisition in the period the costs are incurred or recorded. As a result, the pro forma financial information is not necessarily indicative of what the Combined Company's financial condition or results of operations would have been had the Acquisition been completed on the applicable dates of this pro forma financial information. In addition, the pro forma financial information does not purport to project the future financial condition of the Combined Company.

The pro forma adjustments are described in the accompanying notes. Pro forma adjustments are those that are directly attributable to the transaction, are factually supported and, with respect to the unaudited pro forma condensed combined statements of operations, are expected to have a continuing effect on the consolidated results of operations of the Combined Company. The pro forma adjustments are based on the preliminary purchase price allocation and management's estimates. Differences between the preliminary and final allocation could have a material effect on the Pro Forma Statements. The actual amounts recorded as of the completion of the Acquisition may differ materially from the information presented in these Pro Forma Statements as a result of several factors, including changes in net assets that may have occurred prior to completion of the Acquisition. Actual allocations will be based on final valuations, appraisals and other analyses of the fair value of the acquired assets and liabilities. The allocation will be finalized after the data necessary to complete the valuations, appraisals and other analyses are obtained and evaluated.

The Pro Forma Statements should be read in conjunction with:

- The accompanying notes to the unaudited pro forma condensed combined financial statements;
- Pixelworks' audited consolidated financial statements and related notes, as well as Management's Discussion and Analysis of Financial Condition and Results of Operation, contained in Pixelworks' Annual Report on Form 10-K as of and for the year ended December 31, 2016;
- Pixelworks' unaudited condensed consolidated financial statements and related notes, as well as Management's Discussion and Analysis of Financial Condition and Results of Operation, contained in Pixelworks' Quarterly Report on Form 10-Q as of and for the three and six months ended June 30, 2017;
- ViXS' audited consolidated financial statements and related notes, as well as Management's Discussion and Analysis, as at and for the fiscal year ended January 31, 2017; and
- ViXS' unaudited consolidated financial statements and related notes as at and for the three and six months ended July 31, 2017.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

(In thousands and in U.S. dollars)

	Pixelworks June 30, 2017	ViXS July 31, 2017 (Adjusted) Note 4	Pro Forma Adjustments Note 5		Pro Forma Combined
ASSETS					
Current assets:					
Cash and cash equivalents	$ 32,246	$ 2,595	$ —		$ 34,841
Accounts receivable, net	5,676	849	—		6,525
Inventories	1,954	995	2,415	(a)	5,364
Prepaid expenses and other current assets	1,341	1,077	299	(b)	2,717
Total current assets	41,217	5,516	2,714		49,447
Property and equipment, net	4,636	2,502	(1,539)	(c)	5,599
Other assets, net	781	—	—		781
Goodwill	—	—	18,218	(d)	18,218
Intangible assets, net	—	—	6,730	(d)	6,730
Total assets	$ 46,634	$ 8,018	$ 26,123		$ 80,775
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$ 2,516	$ 2,334	$ —		$ 4,850
Accrued liabilities and current portion of long-term liabilities	13,241	1,242	2,495	(e)	16,978
Current portion of income taxes payable	989	—	—		989
Short-term line of credit	—	4,046	—		4,046
Total current liabilities	16,746	7,622	2,495		26,863
Convertible debt	—	6,850	—		6,850
Long-term liabilities, net of current portion	1,029	1,738	—		2,767
Income taxes payable, net of current portion	2,046	—	—		2,046
Total liabilities	19,821	16,210	2,495		38,526
Shareholders' equity	26,813	(8,192)	23,628	(f)	42,249
Total liabilities and shareholders' equity	$ 46,634	$ 8,018	$ 26,123		$ 80,775

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

(In thousands, except per share data, and in U.S. dollars)

	Pixelworks Six Months Ended June 30, 2017	ViXS Six Months Ended July 31, 2017 (Adjusted) Note 4	Pro Forma Adjustments Note 5		Pro Forma Combined
Revenue, net	$ 43,431	$ 7,446	$ —		$ 50,877
Cost of revenue (1)	19,838	4,478	345	(a)	24,661
Gross profit	23,593	2,968	(345)		26,216
Operating expenses:					
Research and development (2)	9,407	4,379	(44)	(a)	13,742
Selling, general and administrative (3)	8,799	4,750	(1,551)	(a)	11,998
Total operating expenses	18,206	9,129	(1,595)		25,740
Income (loss) from operations	5,387	(6,161)	1,250		476
Other income (expense):					
Gain on sale of product line	—	4,786	—		4,786
Interest expense and other, net	(200)	(373)	—		(573)
Total other income (expense)	(200)	4,413	—		4,213
Income before income taxes	5,187	(1,748)	1,250		4,689
Provision for income taxes	1,102	118	—		1,220
Net income	$ 4,085	$ (1,866)	$ 1,250		$ 3,469
Net income per share:					
Basic	$ 0.14	$ (0.03)			$ 0.10
Diluted	$ 0.13	$ (0.03)			$ 0.10
Weighted average shares outstanding:					
Basic	29,526	73,597	3,708	(b)	33,234
Diluted	31,601	73,597	3,708	(b)	35,309

(1) Includes stock-based compensation	$ 122	$ —	$ —		$ 122
(2) Includes stock-based compensation	676	201	(44)		833
(3) Includes:					
Stock-based compensation	941	378	(308)		1,011
Acquisition-related costs	894	550	(1,444)		—

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

(In thousands, except per share data, and in U.S. dollars)

	Pixelworks Year Ended December 31, 2016	ViXS Year Ended January 31, 2017 (Adjusted) Note 4	Pro Forma Adjustments Note 5		Pro Forma Combined
Revenue, net	$ 53,390	$ 28,519	$ —		$ 81,909
Cost of revenue (1)	28,322	18,747	1,070	(a)	48,139
Gross profit	25,068	9,772	(1,070)		33,770
Operating expenses:					
Research and development (2)	19,036	14,332	(138)	(a)	33,230
Selling, general and administrative (3)	13,770	8,265	(261)	(a)	21,774
Restructuring	2,608	—	—		2,608
Total operating expenses	35,414	22,597	(399)		57,612
Loss from operations	(10,346)	(12,825)	(671)		(23,842)
Interest expense and other, net	(406)	(518)	—		(924)
Loss before income taxes	(10,752)	(13,343)	(671)		(24,766)
Provision for income taxes	355	102	—		457
Net loss	(11,107)	(13,445)	(671)		(25,223)
Net loss per share:					
Basic	$ (0.39)	$ (0.22)			$ (0.79)
Diluted	$ (0.39)	$ (0.22)			$ (0.79)
Weighted average shares outstanding:					
Basic	28,276	62,285	3,708	(b)	31,984
Diluted	28,276	62,285	3,708	(b)	31,984

(1) Includes:					
Restructuring	$ 1,784	$ —	$ —		$ 1,784
Stock-based compensation	190	—	—		190
(2) Includes stock-based compensation	1,600	381	(138)		1,843
(3) Includes stock-based compensation	872	776	(663)		985

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS
(In thousands, except share and per share data, and in U.S. dollars)

NOTE 1. BASIS OF PRO FORMA PRESENTATION

Description of Transaction

On May 18, 2017, Pixelworks entered into the Agreement to acquire all of the issued and outstanding common shares of ViXS Systems, Inc. The Acquisition closed on August 2, 2017 and Pixelworks issued 3,708,263 shares to holders of ViXS common stock and holders of ViXS restricted stock units that were vested simultaneously with closing. Additionally, all restricted stock units of ViXS which were unvested and outstanding as of the Closing Date were replaced with new grants of restricted share units of Pixelworks common stock.

Fiscal Year Ends

Pixelworks' fiscal year ends on December 31, and ViXS' fiscal year ends on January 31. Due to the difference in each entity's fiscal year end, the unaudited pro forma consolidated statements of operations are based on (a) Pixelworks' audited consolidated statement of operations for the year ended December 31, 2016 and ViXS' audited consolidated statement of loss and comprehensive loss for the year ended January 31, 2017, and (b) Pixelworks' unaudited consolidated statement of operations for the six months ended June 30, 2017 and ViXS' unaudited condensed consolidated statement of loss and comprehensive loss for the six months ended July 31, 2017.

Pro Forma Adjustments and Presentation Adjustments

The Pro Forma Statements were prepared using the acquisition method of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805 "*Business Combinations*" ("ASC 805") with Pixelworks considered the accounting acquirer of ViXS. Under the acquisition method of accounting, the assets and liabilities of ViXS, as of the effective date of the Acquisition, will be recorded by Pixelworks at their respective fair values and the excess of the Acquisition consideration over the fair value of ViXS' net assets will be allocated to goodwill. The unaudited condensed combined statements of operations for the year ended December 31, 2016 and the six months ended June 30, 2017 were prepared to reflect the Acquisition as if it had been completed on January 1, 2016, and the condensed combined balance sheet was prepared to reflect the Acquisition as if it had been completed on June 30, 2017.

Pro forma adjustments are those that are directly attributable to the Acquisition, are factually supported and, with respect to the unaudited pro forma condensed combined statements of operations, are expected to have a continuing effect on consolidated results of operations of the Combined Company. Pro forma adjustments do not include any cost savings from operating efficiencies, synergies, asset dispositions or other restructurings that could result from the Acquisition. The pro forma adjustments have been developed based on management's assumptions and estimates, including assumptions and estimates relating to the consideration paid and the allocation thereof to the assets acquired and liabilities assumed from ViXS based on preliminary estimates of fair value. The final purchase price allocation may differ from that reflected in the Pro Forma Statements. The Pro Forma Statements are provided for illustrative purposes only, and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of the Combined Company would have been had the Acquisition occurred on the applicable dates, nor are they necessarily indicative of future consolidated results of operations or financial position.

ViXS' historical consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, which differ in certain respects from the accounting principles generally accepted in the United States of America ("U.S. GAAP"). Pixelworks performed a review of ViXS' accounting policies to determine whether any adjustments were necessary to ensure comparability in the pro forma unaudited condensed combined financial statements. As a result of this review, adjustments were made to ViXS' historical financial statements to estimate the conversion from IFRS to U.S. GAAP, and certain presentation adjustments were made to ViXS' historical financial statements to conform to Pixelworks' accounting presentation. Pixelworks continues to review ViXS' accounting policies. As a result, additional differences may be identified between the accounting policies of the two companies that, when conformed, could have a material effect on the unaudited pro forma condensed combined financial statements.

NOTE 2. PRELIMINARY ESTIMATED PURCHASE PRICE

The total preliminary estimated purchase price for the transaction is approximately, $16,975, as follows:

Value of Pixelworks common shares issued to ViXS shareholders (1)	$16,316
Value of Pixelworks common shares and restricted stock units issued to holders of ViXS restricted stock units (2)	$ 659
Total consideration transferred	**$16,975**

(1) Equals 3,586,021 shares issued by Pixelworks multiplied by Pixelworks' closing share price on August 2, 2017, of $4.55.

(2) In accordance with applicable accounting guidance, the fair value of replacement equity awards attributable to pre-combination service is recorded as part of the consideration transferred in the Acquisition, while the fair value of replacement awards attributable to post-combination service is recorded separately from the Acquisition and recognized as compensation cost over the remaining post-combination service period. The portion of ViXS equity awards attributable to pre-combination and post-combination service was estimated based on the ratio of the service period rendered as of August 2, 2017 to the total service period. The fair value of awards attributed to pre-combination service was recognized in this component of purchase price. The impact of post-combination compensation costs have been recorded as adjustments to the unaudited pro forma condensed combined statements of operations. The vesting of certain ViXS restricted stock units was accelerated and occurred at closing of the Acquisition. For these equity awards, Pixelworks issued common shares, rather than restricted stock units.

NOTE 3. PRELIMINARY ESTIMATED PURCHASE PRICE ALLOCATION

Under the acquisition method of accounting, the total purchase price is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the date of the Acquisition. The pro forma purchase price allocation below has been developed based on preliminary estimates of fair value using the adjusted historical financial statements of ViXS as of July 31, 2017. Pixelworks has not completed the detailed valuation studies necessary to arrive at the final fair values of ViXS' assets and liabilities. Therefore, the following allocation of the purchase price to acquired intangible assets is based on preliminary fair value estimates and subject to final management analysis, with the assistance of third party valuation advisors. The estimated intangible asset values and their useful lives could be affected by a variety of factors that may become known to Pixelworks only upon completion of our analysis.

The preliminary estimated intangible assets consist of developed technology, customer relationships, trade name and backlog. The estimated useful lives range between six months and five years and are detailed in the schedule below. The estimated fair values of the intangibles were based primarily on current estimates of ViXS' expected future cash flows and may change as estimates and assumptions are refined. Additional intangible asset classes may be identified as the valuation process continues. A 10% change in the amount allocated to identifiable intangible assets would increase or decrease annual amortization expense by approximately $185.

The excess of the purchase price over the tangible and identifiable intangible assets acquired and liabilities assumed has been allocated to goodwill. The actual amounts recorded when the final valuation is complete may differ materially from the pro forma amounts presented below:

Total preliminary purchase price		$16,975
Estimated fair value of net tangible assets acquired and liabilities assumed:		
Cash and cash equivalents	$ 2,595	
Accounts receivable	849	
Inventories	3,410	
Prepayments and other current assets	1,376	
Property and equipment	963	
Accounts payable, accrued liabilities and other current liabilities	(4,532)	
Revolving bank loan payable	(4,046)	
Convertible debentures	(6,850)	
Other long-term liabilities	(1,738)	
		(7,973)
Estimated fair value of identifiable intangible assets acquired:		
Developed technology	5,050	
Customer relationships	1,270	
Backlog	260	
Trade name	150	
		6,730
Estimated goodwill		$18,218

Tangible assets acquired

The fair value of tangible assets acquired (with the exception of inventory, property and equipment and production assets) are based on the adjusted historical balance sheet of ViXS as of July 31, 2017, and approximate fair value. The inventory balance incorporates an estimated step-up based on a preliminary valuation. The property and equipment balance incorporates an adjustment down to fair market value based on a preliminary valuation. The production assets have been subsumed into intangible assets in the purchase price allocation. These adjustments are subject to further review by management.

Liabilities assumed

The fair value of liabilities assumed (with the exception of certain contractual payment obligations) are based on the adjusted historical balance sheet of ViXS as of July 31, 2017, and approximate fair value. The payment obligation balances incorporate fair value adjustments. These adjustments are subject to further review by management.

Identifiable intangible assets

The preliminary fair value of the acquired developed technology and backlog were determined based on an income approach using the multi-period excess earnings method. The preliminary value of the acquired customer relationships was determined based on a cost approach. The preliminary fair value of the acquired trade name was determined based on an income approach using the relief from royalty method. These estimates are based on a preliminary valuation and are subject to further review by management. The following table sets forth the components of these intangible assets and their estimated useful lives:

	Fair Value	Estimated Useful Life (Years)
Developed technology	$ 5,050	3 - 5
Customer relationships	1,270	3 - 5
Trade name	150	1.5
Backlog	260	0.5

NOTE 4. ADJUSTMENTS TO VIXS' FINANCIAL STATEMENTS

The following IFRS to U.S. GAAP and presentation adjustments have been made to ViXS' Consolidated Statement of Loss for the six months ending July 31, 2017 to conform to Pixelworks' presentation:

	ViXS Unadjusted IFRS	Revenue Recognition Note 4a	Other Income and Expense Note 4b	Intangible and Other Assets Note 4c	Fair Value Adjustments Note 4d	ViXS Adjusted U.S. GAAP
Revenue, net	$ 7,581	$ (135)	$ —	$ —	$ —	$ 7,446
Cost of revenue	5,486	(62)	—	(946)	—	4,478
Gross profit	2,095	(73)	—	946	—	2,968
Operating expenses:						
Research and development	4,267	—	—	112	—	4,379
Selling, general and administrative	4,740	(73)	83	—	—	4,750
Total operating expenses	9,007	(73)	83	112	—	9,129
Loss from operations	(6,912)	—	(83)	834	—	(6,161)
Other income (expense):						
Gain on sale of product line	4,786	—	—	—	—	4,786
Interest expense and other income, net	(2,383)	—	83	(108)	2,035	(373)
Total other income (expense):	2,403	—	83	(108)	2,035	4,413
Income before income taxes	(4,509)	—	—	726	2,035	(1,748)
Provision for income taxes	118	—	—	—	—	118
Net income	$ (4,627)	$ —	$ —	$ 726	$ 2,035	$ (1,866)
Net income per share:						
Basic	$ (0.06)					$ (0.03)
Diluted	$ (0.06)					$ (0.03)
Weighted average shares outstanding:						
Basic	73,597					73,597
Diluted	73,597					73,597

The following IFRS to U.S. GAAP and reclassification adjustments have been made to ViXS' Consolidated Statement of Loss for the year ended January 31, 2017 to conform to Pixelworks' presentation:

	ViXS Unadjusted IFRS	Revenue Recognition Note 4a	Other Income and Expense Note 4b	Intangible and Other Assets Note 4c	Fair Value Adjustments Note 4d	ViXS Adjusted U.S. GAAP
Revenue, net	$ 29,513	$ (994)	$ —	$ —	$ —	$ 28,519
Cost of revenue	20,649	(560)	—	(1,342)	—	18,747
Gross profit	8,864	(434)	—	1,342	—	9,772
Operating expenses:						
Research and development	11,977	(289)	—	2,644	—	14,332
Selling, general and administrative	8,070	(145)	340	—	—	8,265
Total operating expenses	20,047	(434)	340	2,644	—	22,597
Loss from operations	(11,183)	—	(340)	(1,302)	—	(12,825)
Interest expense and other income, net	329	—	340	(19)	(1,168)	(518)
Loss before income taxes	(10,854)	—	—	(1,321)	(1,168)	(13,343)
Provision for income taxes	102	—	—	—	—	102
Net loss	$ (10,956)	$ —	$ —	$ (1,321)	$ (1,168)	$ (13,445)
Net loss per share:						
Basic	$ (0.17)					$ (0.22)
Diluted	$ (0.17)					$ (0.22)
Weighted average shares outstanding:						
Basic	62,285					62,285
Diluted	62,285					62,285

The following IFRS to U.S. GAAP adjustments and reclassification adjustments have been made to ViXS' July 31, 2017 Balance Sheet to conform to Pixelworks' presentation:

	ViXS Unadjusted IFRS	Intangible and Other Assets Note 4c	ViXS Adjusted U.S. GAAP
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,595	$ —	$ 2,595
Restricted cash	125	—	125
Accounts receivable, net	849	—	849
Other amounts receivable	530	—	530
Inventories	995	—	995
Prepaid expenses and other current assets	723	(301)	422
Total current assets	5,817	(301)	5,516
Property and equipment, net	2,022	480	2,502
Other assets, net	6,047	(6,047)	—
Total assets	$ 13,886	$ (5,868)	$ 8,018
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 2,334	$ —	$ 2,334
Accrued liabilities and current portion of long-term liabilities	—	796	796
Deferred revenue	257	—	257
Current portion of repayable government assistance	189	—	189
Short-term line of credit	4,046	—	4,046
Total current liabilities	6,826	796	7,622
Long-term liabilities, net of current portion			
Convertible debt	6,850	—	6,850
Warrant liability	—	—	—
Repayable government assistance, net of current portion	930	—	930
Long-term liabilities, net of current portion	94	714	808
Total liabilities	14,700	1,510	16,210
Shareholders' equity	(814)	(7,378)	(8,192)
Total liabilities and shareholders' equity	$ 13,886	$ (5,868)	$ 8,018

The financial information above illustrates the impact of estimated adjustments to ViXS' financial statements prepared in accordance with IFRS in order to present them on a basis consistent with Pixelworks' accounting presentation and policies under U.S. GAAP. These adjustments reflect Pixelworks' best estimates based upon the information currently available, and are subject to change once more detailed information is obtained.

4a. Revenue recognition

This adjustment conforms ViXS' revenue recognition for development agreements and sales through distributors to Pixelworks' policy and U.S. GAAP.

4b. Other income and expense

This adjustment conforms ViXS' presentation of foreign currency transaction gains and losses and certain financing and tax expenses to Pixelworks' policy and U.S. GAAP.

4c. Intangible and other assets

This adjustment conforms ViXS' accounting for licensed third party intellectual property and licensed software tools to Pixelworks' policy and U.S. GAAP.

4d. Fair value adjustments

ViXS recorded its convertible debt, and the derivatives embedded in the debt, at fair value through adjustments to its statement of operations. After the closing date of the Acquisition, Pixelworks will record fair value adjustments only on certain of the embedded derivatives. This adjustment eliminates ViXS' historical fair value adjustment, but does not attempt to estimate the amount of the adjustment that would have been booked by Pixelworks. It is impractical to derive such an estimate, and such adjustment would not be reflective of the results of business operations, nor would it have a continuing effect on the combined operating results.

NOTE 5. UNAUDITED PRO FORMA ADJUSTMENTS

The following is a description of the unaudited pro forma adjustments reflected in the Pro Forma Statements:

Balance Sheet

a. Inventories

The pro forma adjustment of $2,415 reflects the step-up in value of ViXS' work-in-process and finished goods inventory to fair value. The increased valuation of the inventory will increase cost of goods sold as the acquired inventory is sold after the closing date of the Acquisition. There is no continuing effect of the acquired inventory adjustment on the combined operating results and, as such, this adjustment is not included in the unaudited pro forma condensed combined statements of operations.

The fair value of work-in-process inventory is equal to the estimated selling price less the sum of (a) costs to complete the manufacturing process, (b) costs of selling effort, and (c) a reasonable profit margin for completion of the manufacturing process and selling effort. The fair value of finished goods inventory is equal to the estimated selling price less the sum of (a) costs of selling effort, and (b) a reasonable profit margin for the selling effort.

b. Prepaid expenses and other current assets

The pro forma adjustment of $299 reflects the fair value of contract costs ViXS incurred prior to the close of the Acquisition which will be recognized by the Combined Company upon completion of the contract.

c. Property and equipment

The pro forma adjustment of ($1,539) reflects the elimination of production assets on ViXS' balance sheet that are subsumed into the acquired developed technology intangible asset in the purchase price allocation, plus a fair value adjustment on other tangible property and equipment.

d. Goodwill and other intangible assets

See Note 3 for estimated allocation of purchase price to goodwill and other intangible assets. The pro forma purchase price allocation is preliminary as final valuation procedures have not yet been completed, and therefore the final valuation could differ significantly from the current estimate. The pro forma presentation assumes that the historical values of ViXS' tangible assets (with the exception of inventory, property and equipment and production assets) and liabilities (with the exception of certain contractual payment obligations) as of July 31, 2017 approximate fair value. Inventory incorporates an estimated fair value step-up based upon a preliminary valuation, and property and equipment and contractual payment obligations incorporate adjustments to estimated fair value. Additionally, the allocation of the purchase price to acquired intangible assets is preliminary and subject to the final outcome of management's analysis to be conducted with the assistance of valuation advisors. The residual amount of the purchase price has been allocated to goodwill. The actual amount recorded when the valuation is finalized may differ materially from the pro forma presentation herein.

e. *Accrued liabilities and current portion of long-term liabilities*

The pro forma accrued liabilities include an adjustment of $2,495 reflecting the estimated unpaid non-recurring merger-related costs (that are not reflected in the historical financial statements of either Pixelworks or ViXS) such as legal fees, fairness opinion fees, accounting fees, valuation fees and other expenses associated with the Acquisition, which Pixelworks and ViXS expect to incur. While presented in the unaudited pro forma condensed combined balance sheet, these costs have been excluded from the unaudited pro forma condensed combined statements of operations as there is no continuing effect of such costs.

f. *Shareholders' equity*

The historical shareholders' equity of ViXS will be eliminated at closing of the Acquisition. Pixelworks issued approximately $16,316 of common stock as part of the purchase consideration, and estimates the value of replacement restricted stock, and shares issued to holders of accelerated restricted stock units, to be $659. Refer to Note 2 for a discussion of the determination of the estimated preliminary purchase price which includes how the common stock and restricted stock awards to be issued were valued.

The calculation of the pro forma adjustment to total shareholders' equity is as follows:

Elimination of pre-Acquisition ViXS adjusted equity balances	$ 8,192
Impact of Pixelworks shares and restricted stock units to be issued	16,975
Estimated transaction costs	(1,539)
	$23,628

Statements of Operations

a. *Cost of goods sold, Research and development, and Selling, general and administrative*

The pro forma adjustments reflect the elimination of ViXS historical amortization expense, amortization of acquired intangibles, recognition of post combination stock compensation expense, and elimination of Acquisition related transaction costs. Acquisition related transaction costs are eliminated in the Pro Forma Condensed Combined Statements of Operations as they have no continuing impact on the combined results of operations. Detail of these adjustments is as follows:

Six months ended June 30, 2017	Cost of goods Sold	Research and development	Selling, general and administrative
Elimination of ViXS historical amortization expense	$ (252)	$ —	$ —
Amortization of acquired intangible assets	597	—	201
Incremental postcombination stock compensation expense	—	(44)	(308)
Elimination of transaction costs	—	—	(1,444)
Pro forma adjustment	$ 345	$ (44)	$ (1,551)

Year ended December 31, 2016	Cost of goods Sold	Research and development	Selling, general and administrative
Elimination of ViXS historical amortization expense	$ (384)	$ —	$ —
Amortization of acquired intangible assets	1,454	—	402
Incremental postcombination stock compensation expense	—	(138)	(663)
Pro forma adjustment	$ 1,070	$ (138)	$ (261)

b. *Basic and diluted shares*

The pro forma adjustment reflects the estimated number of shares Pixelworks' issued in exchange for ViXS common shares and ViXS vested restricted stock units outstanding at the close of the Acquisition.