AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 25, 2000
REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

PIXELWORKS, INC.

(Exact name of registrant as specified in its charter)

OREGON	3674	91-1761992
(State or other jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

7700 SW MOHAWK
TUALATIN, OREGON 97062
(503) 612-6700
(Address, including zip code and telephone number, including area code, of registrant's principal executive offices)

ALLEN H. ALLEY
PRESIDENT
PIXELWORKS, INC.
7700 SW MOHAWK
TUALATIN, OREGON 97062
(503) 612-6700
(Name, address, including zip code and telephone number, including area code, of agent for service)

COPIES TO:

WILLIAM C. CAMPBELL, ESQ. STEPHEN M. GOING, ESQ. ATER WYNNE LLP 222 S.W. Columbia, Suite 1800 Portland, OR 97201 (503) 226-1191	ERIC S. HAUETER, ESQ. MICHAEL F. TAYLOR, ESQ. BROWN & WOOD LLP 555 California Street, Suite 5000 San Francisco, CA 94104 (415) 772-1200

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE AFTER THE REGISTRATION STATEMENT BECOMES EFFECTIVE.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, check the following box: / /

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 ("Securities Act"), other than securities offered only in connection with dividend or interest reinvestment plans, check the following box: / /

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If delivery of the Prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock, $0.001 par value.....	$75,000,000	$19,800.00

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

SUBJECT TO COMPLETION, DATED FEBRUARY 25, 2000.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

SHARES

[LOGO]

COMMON STOCK
$ PER SHARE

We are selling shares of common stock. The underwriters named in this prospectus may purchase up to additional shares of common stock from us to cover over-allotments.

This is an initial public offering of our shares of common stock. We currently expect the initial public offering price to be between $ and $ per share. We have applied to have our shares of common stock included for quotation on the Nasdaq National Market under the symbol "PXLW."

INVESTING IN OUR SHARES OF COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds to Pixelworks (before expenses)	$	$

The underwriters are offering the shares subject to various conditions. The underwriters expect to deliver the shares to purchasers on or about , 2000.

Salomon Smith Barney | Deutsche Banc Alex. Brown

SG Cowen

E*OFFERING

, 2000

[INSIDE FRONT COVER]

Description of Inside Cover Art

The graphic is entitled "Pixelworks System-on-a-Chip Solutions Enable the Display of Broadband Content." A paragraph of text reads: "Pixelworks opens up the "last meter" by interpreting and optimizing video, computer graphics and Web information for display on a wide variety of devices used in business and consumer markets. We specialize in cost effective system-on-a-chip and embedded software solutions for high-speed digital, analog and video signal processing."

The page uses a stylized illustration of a representation of a pipeline with a representation of an ImageProcessor integrated circuit linked to various display devices. At the top is a human eye with a representation of a globe positioned in place of the iris. At the bottom of the illustration are representations of various forms of visual broadband content, including five boxes containing illustrations of the following from left to right: a person speaking as if involved in an online conference; a screen from an e-commerce shopping site for clothing; a drawing of football players; a screen of financial data showing a growth chart; and a drawing of two characters in a futuristic sword fight to represent movie content. The following words are positioned adjacent to the five boxes: "PC Graphics," "Web Content," and "Video." The pipe is drawn using perspective with the end at the bottom of the page appearing to be distant with the pipe labeled "The Broadband Pipe." At the opening at the top is an illustration of an ImageProcessor IC with a Pixelworks logo on the top of the chip. Five illustrations of display devices surround the integrated circuit from left to right as follows: small LCD monitor, rear projection, wide-screen television, a Web tablet, a plasma display and multimedia projector.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. WE ARE NOT MAKING AN OFFER OF THESE SECURITIES IN ANY STATE WHERE THE OFFER IS NOT PERMITTED. YOU SHOULD NOT ASSUME THAT THE INFORMATION PROVIDED BY THIS PROSPECTUS IS ACCURATE AS OF ANY DATE OTHER THAN THE DATE OF THIS PROSPECTUS.

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Until , 2000, all dealers that buy, sell or trade the shares of common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

This prospectus includes trademarks and tradenames of companies other than Pixelworks, Inc.

PROSPECTUS SUMMARY

THIS SUMMARY HIGHLIGHTS INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS. SINCE THIS IS ONLY A SUMMARY, IT DOES NOT CONTAIN ALL OF THE INFORMATION THAT MAY BE IMPORTANT TO YOU. YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY AND CONSIDER THE INFORMATION UNDER "RISK FACTORS" AND IN OUR FINANCIAL STATEMENTS AND THE NOTES RELATING TO THESE FINANCIAL STATEMENTS, TOGETHER WITH THE INFORMATION INCLUDED ELSEWHERE IN THIS PROSPECTUS, BEFORE DECIDING WHETHER TO INVEST IN OUR SHARES OF COMMON STOCK. OUR FISCAL YEAR ENDS ON DECEMBER 31. EXCEPT WHERE OTHERWISE NOTED, THE INFORMATION IN THIS PROSPECTUS IS BASED UPON INFORMATION AS OF DECEMBER 31, 1999.

OUR COMPANY

We design and develop complete system-on-a-chip solutions that enable the visual display of broadband content through a wide variety of electronic devices. Broadband content includes a combination of video and data delivered to users at high speeds. Enhancing access to broadband information has typically been associated with increasing bandwidth over the "last mile." We are focused on the "last meter," where the information is processed and displayed. In the last meter, there is an increasing requirement to rapidly process large amounts of data delivered using a multitude of broadcast and Web protocols. Our system-on-a-chip solutions open up the last meter by interpreting and optimizing video, computer graphics, and visual Web information for display on a wide variety of devices.

We design our solutions to combine our highly integrated system-on-a-chip integrated circuits, or ICs, with easy to use, feature-rich software. We pioneered our design architecture in technically demanding high-end display markets such as high-resolution flat panel monitors and multimedia projectors. In December 1998, we introduced our ImageProcessor IC which we believe to be the world's first single-chip flat panel display controller. We have developed additional products that extend our solutions into existing high-volume, mass markets such as XGA-resolution flat panel monitors. We intend to develop solutions for emerging mass-market segments such as Internet appliances, where we can leverage our system-on-a-chip expertise.

Our system-on-a-chip solutions enable the creation of differentiated products and reduce circuit board size and lower development costs while enhancing product performance. Our systems-level architecture gives our customers a high degree of flexibility to optimize and customize their products. This significantly improves their time to market for an expanding array of broadband appliances, the electronic devices that process and display broadband content. We have announced products in production with Compaq, Sony and

ViewSonic, and have more than 45 customers, including seven out of the top 10 monitor brands and 10 out of the top 15 television brands. Currently more than 75 products are in development or production using our ImageProcessor system-on-a-chip solutions.

Today, the convergence of television and computer applications is creating new development opportunities for display devices that integrate the ability to process full motion video and support interactive capabilities. This convergence results in increased requirements for throughput and a corresponding higher level of complexity in processing, interpreting and displaying information. While significant growth is forecasted for display devices, the increasing need to rapidly process large amounts of data delivered using a multitude of broadcast and Web protocols could constrain this growth. This bottleneck limits end users' ability to access the full visual potential of broadband content.

Our highly integrated solution, the ImageProcessor system-on-a-chip, breaks through this bottleneck. Our system-on-a-chip solutions are capable of interpreting and optimizing high-speed video, computer graphics and Web information in real time. Our products can also process analog and digital input sources ranging from VGA to QXGA computer resolutions and the latest high definition television standards. We enable our customers to quickly integrate our products into their own

advanced display development programs with our hardware and software solutions. We provide our customers with a new design approach that lets them address all of their display solutions within a single architectural platform that is software compatible across product lines.

We have embraced a systems architecture design process rather than a discrete component-based design process. Our tested and proven solutions have the advantage of combining an embedded microprocessor and corresponding peripherals with embedded memory. This approach enables our customers to substantially increase functionality, reduce time to market, and lower overall development costs in highly efficient designs that support miniaturization. Our highly integrated design enables our customers to significantly reduce the selection, sourcing, testing, integration, debugging, and design of separate components by combining as many as 10 separate components into a single chip.

Key benefits of our solution include:

- consistent, scalable architecture across multiple products;
- broad compatibility with a range of input sources and interface standards;
- a large suite of features required for the most demanding applications; and
- rapid time to market with lower development costs.

Our objective is to be a leading provider of system-on-a-chip solutions enabling universal access to broadband content through a wide array of targeted devices in consumer and business markets.

The key elements of this strategy are:

- design and sell increasingly integrated systems-level solutions on single chips;
- deliver highly flexible, scalable and programmable solutions;
- expand from high-end markets into mass markets;
- support and define industry standards; and
- build strategic relationships.

CORPORATE INFORMATION

We were incorporated in Oregon on January 16, 1997. Our principal executive office is located at 7700 SW Mohawk, Tualatin, Oregon 97062 and our telephone number is 503-612-6700. Our World Wide Web address is www.pixelworksinc.com. Information on our Web site does not constitute part of this prospectus.

THE OFFERING

Common stock offered.....	shares
Common stock to be outstanding after the offering.....	shares
Use of proceeds.....	For working capital and for general corporate purposes. See "Use of Proceeds."
Proposed Nasdaq National Market symbol.....	PXLW

Unless otherwise indicated, all information in this prospectus, including the outstanding share information above is based on the number of shares outstanding as of December 31, 1999 and:

- gives effect to the issuance of 2,239,212 shares of Series D preferred stock issued on February 22, 2000;
- gives effect to the automatic conversion of all outstanding shares of preferred stock into 13,139,219 shares of common stock immediately prior to the completion of the offering;
- reflects a -for- stock split which will be effected prior to the offering;
- excludes 1,942,838 shares of common stock issuable upon the exercise of options outstanding at December 31, 1999 at a weighted average exercise of $1.49 per share;
- excludes 1,936,494 shares of common stock available for issuance under our 1997 stock incentive plan;
- excludes 1,000,000 shares of common stock available for issuance under our 2000 employee stock purchase plan; and
- assumes no exercise of the underwriters' over-allotment option.

SUMMARY FINANCIAL INFORMATION

The following table sets forth our summary financial data. You should read this information together with our financial statements, the notes to those statements beginning on page F-1 of this prospectus, the information under "Selected Financial Data," "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The pro forma numbers in the table give effect to:

- proceeds from the issuance of 2,239,212 shares of Series D preferred stock on February 22, 2000; and
- the conversion of all outstanding shares of preferred stock into 13,139,219 shares of common stock immediately prior to the completion of the offering.

The capitalization on a pro forma as adjusted basis reflects the sale of shares of common stock offered by us at an assumed initial offering price of $ per share after deducting the underwriting discount and estimated offering expenses payable by us, and the receipt of net proceeds from this offering.

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION)	YEARS ENDED DECEMBER 31,

	TO DECEMBER 31, 1997	1998	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
STATEMENT OF OPERATIONS DATA:			
Total revenue	$ 400	$ 978	$12,812
Gross profit	376	956	4,443
Loss from operations	(429)	(1,804)	(5,293)
Net loss	$ (376)	$(1,603)	$(4,887)
Net loss per share, basic and diluted	$ (0.68)	$ (0.91)	$ (2.30)
Weighted average shares of common stock outstanding	552	1,774	3,981
Pro forma net loss per share, basic and diluted (unaudited)			$ (0.57)
Shares used in computing pro forma net loss per share, basic and diluted (unaudited)			16,228

	AS OF DECEMBER 31, 1999		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS)		
BALANCE SHEET DATA:			
Cash and cash equivalents	$12,199	$38,749	
Working capital	12,770	39,320	
Total assets	18,394	46,944	
Long-term obligations, net of current portion	591	591	
Redeemable convertible preferred stock	23,701	--	
Total shareholders' equity (deficit)	$(9,295)	$42,956	

RISK FACTORS

INVESTING IN OUR SHARES OF COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. IF ANY OF THE FOLLOWING RISKS OCCUR, THE MARKET PRICE OF OUR SHARES OF COMMON STOCK COULD DECLINE AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.

RISKS RELATED TO OUR OPERATIONS

OUR LIMITED OPERATING HISTORY MAKES IT DIFFICULT TO EVALUATE OUR FUTURE PROSPECTS.

We were founded in 1997 and have a limited operating history, which makes an evaluation of our future prospects difficult. In addition, the revenue and income potential of our business and markets are unproven. We began shipments of our first product in December 1998. Accordingly, we face risks and difficulties frequently encountered by early stage companies in new and rapidly evolving markets. If we do not successfully address these risks and difficulties, we would likely not achieve anticipated levels of revenue growth. In this event, we would be unable to achieve profitability or build a sustainable business.

WE HAVE INCURRED NET LOSSES SINCE OUR INCEPTION, AND WE MAY NOT ACHIEVE OR SUSTAIN ANNUAL PROFITABILITY.

We incurred net losses of approximately $376,000, $1.6 million and $4.9 million in 1997, 1998 and 1999, respectively, and had an accumulated deficit of approximately $6.9 million as of December 31, 1999. In the future we expect our research and development and selling, general and administrative expenses to increase. In addition, we will incur substantial non-cash charges relating to the amortization of deferred stock compensation. Accordingly, we expect to continue to incur additional operating losses for at least the next 12 months, and these losses may be substantial. Although we have experienced revenue growth in recent quarters, this growth is not necessarily indicative of future operating results, and we cannot assure you that we will be able to sustain the growth in our revenues. We cannot be certain that we will achieve profitability or that, if we do, that we can sustain or increase profitability on a quarterly

or annual basis in the future or at all. This may in turn cause the price of our common stock to decline. In addition, if we do not achieve or sustain profitability in the future, we may be unable to continue our operations.

FLUCTUATIONS IN OUR QUARTERLY OPERATING RESULTS MAKE IT DIFFICULT TO PREDICT OUR FUTURE PERFORMANCE AND MAY RESULT IN VOLATILITY IN THE MARKET PRICE OF OUR COMMON STOCK.

Our quarterly operating results are likely to vary significantly in the future based on a number of factors related to our industry and the markets for our products, some of which are not in our control and any of which may cause the price of our common stock to fluctuate. These factors include:

- demand for flat panel monitors, advanced television displays, multimedia projectors and Internet appliances;

- demand for our products and the timing of orders for our products;

- the deferral of customer orders in anticipation of our new products or product enhancements or due to a reduction in our customers' end demand;

- the loss of one or more of our key distributors or customers or a reduction, delay or cancellation of orders from one or more of these parties;

- changes in the available production capacity at the semiconductor fabrication foundries that manufacture our products and changes in the costs of manufacturing;

- our ability to provide adequate supplies of our products to customers and avoid excess inventory;

- announcement or introduction of products and technologies by our competitors;

- changes in product mix, product costs or pricing, or distribution channels; and

- general economic conditions and economic conditions specific to the personal computer, display and semiconductor markets.

These factors are difficult to forecast, and these or other factors could seriously harm our business. We anticipate the rate of new orders may vary significantly from quarter to quarter. Our operating expenses and inventory levels are based on our expectations of future revenues and our operating expenses are relatively fixed in the short term. Consequently, if anticipated sales and shipments in any quarter do not occur when expected, operating expenses and inventory levels could be disproportionately high, and our operating results for that quarter and, potentially, future quarters may be negatively impacted. Any shortfall in our revenues would have a direct impact on our business. In addition, fluctuations in our quarterly results could adversely affect the price of our common stock in a manner unrelated to our long-term operating performance. Because our operating results are volatile and difficult to predict, you should not rely on the results of one quarter as an indication of our future performance. It is likely that in some future quarter our operating results will fall below the expectations of securities analysts and investors. In this event, the price of our common stock may decline significantly.

IF WE DO NOT ACHIEVE ADDITIONAL DESIGN WINS IN THE FUTURE, OUR ABILITY TO GROW WOULD BE SERIOUSLY LIMITED.

Our future success will depend on developers of advanced display devices designing our products into their systems. To achieve design wins we must define and deliver cost-effective, innovative and integrated solutions. Once a supplier's products have been designed into a system, the developer may be reluctant to change its source of components due to the significant costs associated with qualifying a new supplier. Accordingly, the failure on our part to obtain additional design wins with leading branded manufacturers or integrators, and to successfully design, develop and introduce new products and product enhancements could harm our business, financial condition and results of operations.

Achieving a design win does not necessarily mean that a developer will order large volumes of our products. A design win is not a binding commitment by a developer to purchase our products. Rather, it is a decision by a developer to use our products in the design process of that developer's products. Developers can choose at any time to discontinue using our products in their designs or product development efforts. If our products are chosen to be incorporated into a developer's products, we may still not realize significant revenues from that developer, if that developer's products are not commercially successful.

WE MAY NOT BE ABLE TO DEVELOP NEW PRODUCTS OR PRODUCT ENHANCEMENTS IN A TIMELY MANNER.

Successful development and timely introduction of new or enhanced products depends on a number of factors, including:

- accurate prediction of market requirements and evolving customer and industry standards;
- development of advanced technologies and capabilities;
- definition of new products which satisfy customer requirements;
- timely completion and introduction of new product designs;
- use of advanced foundry processes and achievement of high manufacturing yields; and
- market acceptance of the new products.

As a result of the increased challenges associated with more complex mixed-signal designs, we have experienced increased development time and delays in introducing new products. We will not always

succeed in developing new products or product enhancements or do so in a timely manner. If we are not able to successfully develop and introduce our products in a timely manner, our business and results of operations will be adversely affected.

INTEGRATION OF SOFTWARE IN OUR PRODUCTS ADDS COMPLEXITY AND COST WHICH MAY AFFECT OUR ABILITY TO ACHIEVE DESIGN WINS AND MAY AFFECT OUR PROFITABILITY.

Our products incorporate software and software development tools. The integration of software adds complexity, may extend our internal development programs and could impact our customers' development schedules. This complexity requires increased coordination between hardware and software development schedules and may increase our operating expenses without a corresponding increase in product revenue. This additional level of complexity lengthens the sales cycle and may result in customers selecting competitive products requiring less software integration.

OUR HIGHLY INTEGRATED PRODUCTS ARE DIFFICULT AND COSTLY TO MANUFACTURE.

The manufacture of semiconductors is a complex process and it is often difficult for semiconductor foundries to achieve acceptable product yields. Product yields depend on both product design and the manufacturing process technology unique to the semiconductor foundry. Given the increasing demands to integrate additional system-level functionality and provide mixed-signal system-on-a-chip solutions, our products are becoming more complex and increasingly difficult to design, develop and manufacture. Because our products are highly integrated and incorporate mixed signal and embedded memory technology, yields are further reduced. Since lower yields may result from either design or process difficulties, identifying yield problems may occur only when our integrated circuits can be analyzed and tested in a system after they have been manufactured. Failure to achieve expected yields may result in an increase in our cost and delays in the availability of our products.

A SIGNIFICANT AMOUNT OF OUR REVENUES COMES FROM A FEW CUSTOMERS AND DISTRIBUTORS AND ANY DECREASE IN REVENUES FROM, OR LOSS OF ANY OF, THESE CUSTOMERS OR DISTRIBUTORS COULD SIGNIFICANTLY REDUCE OUR TOTAL REVENUES.

We are and will continue for the foreseeable future to be dependent on a limited number of large customers for a substantial portion of our revenues. In 1999, sales to Tokyo Electron Device Limited, our Japanese distributor,

represented 54.8% of our total revenue and sales to MicroMax International Corporation, our Taiwanese distributor, represented 23.6% of our total revenue. In 1999, sales through Tokyo Electron Device to Seiko Epson Corporation and to Hitachi, Ltd. represented 23.3% and 11.2% of our total revenue, respectively, and sales through MicroMax to Optoma Corp., formerly known as CTX Opto-Electronics Corporation, an integrator for Compaq Computer Corporation, represented 13.4% of our total revenue. As a result of this customer concentration, any one of the following factors could significantly impact our revenues:

- a significant reduction, delay or cancellation of orders from one or more of our key distributors, branded manufacturers or integrators; or

- a decision by one or more significant customers to select products manufactured by a competitor, or its own internally developed solution, for inclusion in future product generations.

The display manufacturing market is highly concentrated among relatively few large manufacturers. We expect our operating results to continue to depend on sales and revenues from a relatively small number of distributors that sell our products to display manufacturers and their suppliers.

INTERNATIONAL SALES ACCOUNT FOR A SIGNIFICANT PORTION OF OUR REVENUES, AND IF WE DO NOT SUCCESSFULLY ADDRESS THE RISKS ASSOCIATED WITH OUR INTERNATIONAL OPERATIONS, OUR REVENUES COULD DECREASE.

Sales outside of the U.S. accounted for 0.0%, 51.1% and 92.8% of our total revenue in 1997, 1998 and 1999, respectively. Most of our customers are located outside of the U.S., primarily concentrated in Japan, Korea and Taiwan, with aggregate sales from those three countries accounting for 89.7% of our total revenue during the year ended December 31, 1999. We anticipate that sales outside the U.S. will continue to account for a substantial portion of our revenues in future periods. In addition, customers who incorporate our products into their products sell them outside of the U.S., thereby exposing us indirectly to foreign risks. In addition, all of our products are manufactured outside of the U.S. We are, therefore, subject to many international risks, including:

- difficulties in managing international distributors and manufacturers of our products and components;

- foreign currency exchange fluctuations;

- potentially adverse tax consequences;

- difficulties regarding timing and availability of export and import licenses;

- political and economic instability;

- tariffs and other barriers;

- reduced or limited protection of our intellectual property;

- burden of complying with complex foreign laws and treaties;

- increased transaction costs related to sales transactions conducted outside of the U.S.;

- difficulties in maintaining sales representatives outside of the U.S. that are knowledgeable of the display processor industry and our display processor products;

- changes in the regulatory environment in Japan, Korea and Taiwan that may significantly impact purchases of our products by our customers;

- difficulties in collecting accounts receivable; and

- difficulties related to design piracy of display processing technology that may exist outside the U.S.

OUR DEPENDENCE ON SELLING THROUGH DISTRIBUTORS AND INTEGRATORS INCREASES THE RISKS AND COMPLEXITY OF OUR BUSINESS.

A significant portion of our revenues depends on design wins with branded manufacturers which rely on integrators or distributors to provide inventory management and purchasing functions. Selling through distributors reduces our ability to forecast sales and increases the complexity of our business, requiring us to manage a more complex supply chain and monitor the financial condition and credit worthiness of our distributors. Our failure to manage one or more of these challenges could seriously harm our business.

WE DEPEND ON A LIMITED NUMBER OF CONTRACT MANUFACTURERS FOR OUR PRODUCTS, AND WE MUST ORDER PRODUCTS FROM THEM BASED ON FORECASTS FROM OUR CUSTOMERS FROM WHICH WE DO NOT HAVE FIRM PURCHASE ORDERS.

We do not own or operate a semiconductor fabrication facility and we do not have the resources to manufacture our products internally. We rely on Toshiba Corporation and Taiwan Semiconductor Manufacturing Company, third party foundries for wafer fabrication and other contract manufacturers

for assembly and electrical testing of our products. We do not have a long-term supply contract with any of our contract manufacturers, and they are not obligated to supply us with products for any specific period, in any specific quantity or at any specific price, except as may be provided in a particular purchase order. We try not to maintain substantial inventories of products, but need to order products long before we have firm purchase orders for those products. None of our products is currently manufactured by more than one supplier, and we expect that all of our products will continue to be manufactured by a single third-party manufacturer. There are many risks associated with our dependence on third-party manufacturing, assembling and product testing relationships, including:

- delays in delivering products in response to purchase orders due to increased demand, disruptions in operations or other factors;

- lack of control over pricing and being subject to material increases in manufacturing costs without advance notice;

- reduced control over quality assurance and manufacturing yields;

- lack of guaranteed production capacity or product supply;

- unavailability or interruption of access to next-generation or key process technologies necessary to manufacture our products; and

- potential misappropriation of our intellectual property.

Our requirements represent only a small portion of the total production capacity of our contract manufacturers and they may reallocate capacity to other customers even during periods of high demand for our products. If we are unable to obtain our products from manufacturers on schedule, revenues from the sale of those products may be delayed. If orders for our products are canceled, expected revenues will not be realized.

BY SUBCONTRACTING SEPARATELY FOR THE PRODUCTION OF WAFERS FOR OUR NEXT-GENERATION PRODUCTS, WE ARE ASSUMING RISKS THAT WE DO NOT CURRENTLY FACE.

Currently, we purchase packaged, assembled and tested products from contract manufacturers. We expect that we will assume greater responsibility for this process for our next-generation of products by subcontracting separately for the production of wafers and for their assembly and testing. We intend to build some future products on a customer owned tooling, or COT, basis, where we directly contract the manufacture of wafers and the assembly and testing of our products. If we do so, we will become subject to increased risks arising from wafer manufacturing yields and associated with coordination of the manufacturing, assembly and testing process. Failure to implement this approach to manufacturing properly, would reduce our revenues and harm our gross margin and results of operations.

WE ARE DEPENDENT ON OUR FOUNDRIES TO IMPLEMENT COMPLEX DEEP-SUBMICRON SEMICONDUCTOR TECHNOLOGIES.

We are continuously developing new products on smaller geometry process technologies in order to increase performance and functionality and reduce the size of our products. We are dependent on our foundries to develop and provide

access to deep-submicron processes. We cannot be certain that future deep-submicron processes will be achieved without difficulties, delays or increased expenses. Our business, financial condition and results of operations could be materially and adversely affected if such processes are unavailable, substantially delayed or inefficiently implemented.

IF WE HAVE TO QUALIFY A NEW CONTRACT MANUFACTURER OR FOUNDRY FOR ANY OF OUR PRODUCTS, WE MAY EXPERIENCE DELAYS THAT RESULT IN LOST REVENUES AND DAMAGED CUSTOMER RELATIONSHIPS.

Our products require manufacturing with state-of-the-art fabrication equipment and techniques. Because the lead time needed to establish a relationship with a new contract manufacturer is at least

six months, and the estimated time for us to adapt a product's design to a particular contract manufacturer's processes is at least four months, there is no readily available alternative source of supply for any specific product. This could cause significant delays in shipping products, which may result in lost revenues and damaged customer relationships.

WE DEPEND ON KEY PERSONNEL TO DEVELOP OUR PRODUCTS AND TO MANAGE OUR BUSINESS EFFECTIVELY, AND IF WE ARE UNABLE TO RETAIN OR HIRE ADDITIONAL PERSONNEL, OUR REVENUES AND PRODUCT DEVELOPMENT EFFORTS COULD BE HARMED.

Our future success depends upon the continued services of our executive officers, key hardware and software engineers, and sales, marketing and support personnel, many of whom would be difficult to replace. The loss of one or more of these employees could seriously harm our business. Particularly, because of the highly technical nature of our business, the loss of key engineering personnel could delay product introductions and significantly impair our ability to successfully create future products. In particular, the loss of the services of Allen Alley, our President, Chief Executive Officer and Chairman, Michael West, our Vice President, Technology, or Robert Greenberg, our Vice President, Product Development and Customer Support, could materially and adversely affect us. We are currently planning to hire a significant number of additional employees this year and in future periods, and we believe our success depends, in large part, upon our ability to identify, attract and retain qualified hardware and software engineers, and sales, marketing, finance and managerial personnel. Competition for such personnel is intense and we may not be able to retain our key personnel or identify, attract or retain other highly qualified personnel in the future. We have experienced, and may continue to experience, difficulty in hiring and retaining candidates with appropriate qualifications. If we do not succeed in hiring and retaining candidates with appropriate qualifications, our product development efforts, revenues and business could be seriously harmed.

WE DO NOT HAVE LONG-TERM COMMITMENTS FROM OUR CUSTOMERS, AND WE ALLOCATE RESOURCES BASED ON OUR ESTIMATES OF CUSTOMER DEMAND WHICH MAY BE INCORRECT.

Our sales are made on the basis of purchase orders rather than long-term purchase commitments. In addition, our customers may cancel or defer purchase orders at any time. We contract for the manufacture of our products according to our estimates of customer demand. This process requires us to make multiple demand forecast assumptions, each of which may introduce error into our estimates. If we or our customers overestimate demand, we may allocate resources to the manufacture of our products which we may not be able to sell. As a result, we would have excess inventory, which would increase our losses. Conversely, if we or our customers underestimate demand or if sufficient manufacturing capacity is unavailable, we would forego revenue opportunities, lose market share and damage our customer relationships.

DEVELOPMENT ARRANGEMENTS MAY CONSUME OUR RESOURCES FAR IN ADVANCE OF REVENUE.

We have development arrangements with customers such as Compaq and ViewSonic and other parties such as Intel Corporation that consume large amounts of engineering resources far in advance of product revenue. Our work under these arrangements will be technically challenging and may require deliverables on an accelerated basis. For example, under our arrangement with Intel we are required to deliver specifications for an integrated circuit shortly after entering into the arrangement. These arrangements place considerable demands on our limited resources, particularly on our most senior engineering talent, and may not result in revenue for twelve to eighteen months, if at all. In addition, allocating significant resources to these arrangements may detract from or delay

the completion of other important development projects. Any of these development agreements could be canceled at any time without notice. These factors could have a material and adverse effect on our long term business and results of operations.

BECAUSE OF OUR LONG PRODUCT DEVELOPMENT PROCESS AND SALES CYCLE, WE MAY INCUR SUBSTANTIAL EXPENSES BEFORE WE EARN ASSOCIATED REVENUES AND MAY NOT ULTIMATELY SELL AS MANY UNITS OF OUR PRODUCTS AS WE FORECASTED.

We develop products based on anticipated market and customer requirements and incur substantial product development expenditures prior to generating associated revenues. Because the development of our products incorporates not only our complex and evolving technology, but our customers' specific requirements, a lengthy sales process is often required before potential customers begin the technical evaluation of our products. Our customers typically perform numerous tests and extensively evaluate our products before incorporating them into their systems. The time required for testing, evaluation and design of our products into a customer's equipment can take up to six months or more. It can take an additional six months before a customer commences volume shipments of systems that incorporate our products. However, even when we achieve a design win, the customer may never ship systems incorporating our products. Because of our relatively limited history in selling our products, we cannot assure you that the time required for the testing, evaluation and design of our products by our customers will not exceed six months. Because of this lengthy development cycle, we will experience delays between the time we incur expenditures for research and development, sales and marketing, inventory levels and the time we generate revenues, if any, from such expenditures.

SHORTAGES OF OTHER KEY COMPONENTS FOR OUR CUSTOMERS' PRODUCTS COULD DELAY OUR ABILITY TO SELL OUR PRODUCTS.

Shortages of components and other materials that are critical to the design and manufacture of our customers' products could limit our sales. These components include but are not limited to, liquid crystal display panels and other display components, analog-to-digital converters, DVI compliant receivers and video decoders.

SHORTAGES OF MATERIALS USED IN THE MANUFACTURING OF OUR PRODUCTS MAY INCREASE OUR COSTS OR LIMIT OUR REVENUES AND IMPAIR OUR ABILITY TO SHIP OUR PRODUCTS ON TIME.

From time to time, shortages of materials that are used in our board products may occur. In particular, we may experience shortages of semiconductor wafers and packages. If material shortages occur, we may incur additional costs or be unable to ship our products to our customers in a timely fashion, all of which could harm our business and negatively impact our earnings.

OUR PRODUCTS COULD BECOME OBSOLETE IF NECESSARY LICENSES OF THIRD-PARTY TECHNOLOGY ARE NOT AVAILABLE TO US OR ARE ONLY AVAILABLE ON TERMS THAT ARE NOT COMMERCIALLY VIABLE.

We license technology from third parties that is incorporated into our products or product enhancements. Future products or product enhancements may require additional third-party licenses that may not be available to us or available on terms that are commercially reasonable. If we are unable to obtain any third-party license required to develop new products and product enhancements, we may have to obtain substitute technology of lower quality or performance standards or at greater cost, either of which could seriously harm the competitiveness of our products.

WE MAY NOT BE ABLE TO RESPOND TO THE RAPID TECHNOLOGICAL CHANGE IN THE MARKETS IN WHICH WE COMPETE, OR WE MAY NOT BE ABLE TO COMPLY WITH INDUSTRY STANDARDS IN THE FUTURE.

The markets in which we compete or seek to compete are subject to rapid technological change, frequent new product introductions, changing customer requirements for new products and features, and evolving industry standards. The introduction of new technologies and the emergence of new industry standards could render our products less desirable or obsolete which could harm our business.

OUR SOFTWARE DEVELOPMENT TOOLS MAY BE INCOMPATIBLE WITH INDUSTRY STANDARDS AND CHALLENGING TO IMPLEMENT.

Our existing products incorporate complex software tools designed to help customers bring products into production. Software development is a complex process and we are dependent on software development languages and operating systems from vendors which may compromise our ability to design software in a timely manner. Also, software development is a volatile market and new software languages are introduced to the market that may be incompatible with our existing systems and tools. New software development languages may not be compatible with our own requiring significant engineering efforts to migrate our existing systems in order to be compatible with those new languages. Such disruptions could slow our product development or cause us to lose customers and design wins.

OUR INTEGRATED CIRCUITS AND SOFTWARE COULD CONTAIN DEFECTS, WHICH COULD REDUCE SALES OF THOSE PRODUCTS OR RESULT IN CLAIMS AGAINST US.

Despite testing by us and our customers, errors may be found in existing or new integrated circuits and software. This could result in a delay in the recognition or loss of revenues, loss of market share or failure to achieve market acceptance. These defects may cause us to incur significant warranty, support and repair costs. They could also divert the attention of our engineering personnel from our product development efforts and harm our relationships with our customers. The occurrence of these problems could result in the delay or loss of market acceptance of our integrated circuits and would likely harm our business. Defects, integration issues or other performance problems in our integrated circuits and software could result in financial or other damages to our customers or could damage market acceptance of our products. Our customers could also seek damages from us for their losses. A product liability claim brought against us even if unsuccessful, would likely be time consuming and costly to defend.

OUR MANUFACTURERS AND CUSTOMERS ARE CONCENTRATED IN THE SAME GEOGRAPHIC REGION WHICH INCREASES THE RISK THAT A NATURAL DISASTER, LABOR STRIKE OR POLITICAL UNREST COULD DISRUPT OUR OPERATIONS.

Our current manufacturers and substantially all of our customers are located in Japan, Korea and Taiwan. The risk of earthquakes in the Pacific Rim region is significant due to the proximity of major earthquake fault lines in the area. In September 1999, a current manufacturer's facilities were affected by a significant earthquake in Taiwan. As a consequence of this earthquake, this manufacturer suffered power outages and disruption that impaired its production capacity. Earthquakes, fire, flooding and other natural disasters in the Pacific Rim region, or political unrest, labor strikes or work stoppages in countries where our manufacturers' and customers are located likely would result in the disruption of our foundry partners' assembly capacity. Any disruption resulting from such events could cause significant delays in shipments of our solutions until we are able to shift our manufacturing or assembling from the affected contractor to another third-party vendor. There can be no assurance that such alternative capacity could be obtained on favorable terms, if at all.

OTHERS MAY BRING INFRINGEMENT ACTIONS AGAINST US WHICH COULD BE TIME-CONSUMING AND EXPENSIVE TO DEFEND.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. While there is currently no intellectual property rights litigation or claims pending against us, we may become subject to claims or a party to litigation in the future. These lawsuits could subject us to significant liability for damages and invalidate our proprietary rights. In addition, intellectual property lawsuits may be brought against customers that incorporate our products in the design of their own products. These lawsuits and claims, regardless of their success or merit and regardless of whether we are named as defendants, would likely be time-consuming and expensive to

resolve and would divert the time and attention of management and technical personnel. Any future intellectual property litigation or claims also could force us to do one or more of the following:

- stop selling products using technology that contain the allegedly infringing intellectual property;

- attempt to obtain a license to the relevant intellectual property, which license may not be available on reasonable terms or at all; and

- attempt to redesign those products that contain the allegedly infringing intellectual property.

If we are forced to take any of the foregoing actions, we may be unable to manufacture and sell our products, which could seriously harm our business. In addition, we may not be able to develop, license or acquire non-infringing technology under reasonable terms. These developments could result in an inability to compete for customers or could adversely affect our ability to increase our earnings.

We were recently notified by InFocus Systems, Inc. that InFocus believed we were infringing patents held by InFocus that relate to methods and apparatus for automatic pixel clock phase and frequency correction. While we do not believe we are infringing these patents, in order to avoid the business uncertainty and diversion of management attention associated with contesting this assertion, we have entered into a license agreement with InFocus granting us the right to use the technology covered by the InFocus patents in exchange for 156,863 shares of our Series D preferred stock and $2.4 million in cash payable in four quarterly installments commencing in March 2000. Under this license agreement, we also received a release of any claims that InFocus may have against us relating to these patents. In addition, we have recently been subpoenaed by the plaintiff in a patent infringement suit against one of our customers to provide information about our design and development efforts for that customer and other information.

OUR LIMITED ABILITY TO PROTECT OUR INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS COULD HARM OUR COMPETITIVE POSITION BY ALLOWING OUR COMPETITORS TO ACCESS OUR PROPRIETARY TECHNOLOGY AND TO INTRODUCE SIMILAR DISPLAY PROCESSOR PRODUCTS.

Our ability to compete effectively with other companies will depend, in part, on our ability to maintain the proprietary nature of our technology, including our integrated circuit designs and software. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods to protect our proprietary technologies. We have three patent applications pending with the U.S. Patent and Trademark Office for protection of certain of our significant technologies. We cannot assure you that the degree of protection offered by patents or trade secret laws will be sufficient. Furthermore, we cannot assure you that any patents will be issued as a result of any pending applications, or that, if issued, any claims allowed will be sufficiently broad to protect our technology. In addition, it is possible that existing or future patents may be challenged, invalidated or circumvented. We provide source code to our software to selected customers in connection with their product development efforts, thereby increasing the risk that customers will misappropriate our proprietary software. Competitors in both the United States and foreign countries, many of which have substantially greater resources, may apply for and obtain patents that will prevent, limit or interfere with our ability to make and sell our products, or develop similar technology independently or design around our patents. Effective copyright, trademark and trade secret protection may be unavailable or limited in foreign countries.

ANY ACQUISITION WE MAKE COULD DISRUPT OUR BUSINESS AND SEVERELY HARM OUR FINANCIAL CONDITION.

We intend to consider investments in or acquisitions of complementary businesses, products or technologies. While we have no current agreements to do so, we may acquire businesses, products or technologies in the future. In the event of any future acquisitions, we could:

- issue stock that would dilute our current stockholders' percentage ownership;

- incur debt;

- assume liabilities;

- incur amortization expenses related to goodwill and other intangible assets; or

- incur large and immediate write-offs.

Our operation of any acquired business will also involve numerous risks, including:

- problems combining the purchased operations, technologies or products;
- unanticipated costs;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with customers;
- risks associated with entering markets in which we have no or limited prior experience; and
- potential loss of key employees, particularly those of the acquired organizations.

We may not be able to successfully integrate businesses, products or technologies or personnel that we might acquire in the future and any failure to do so could disrupt our business and seriously harm our financial condition.

FAILURE TO MANAGE OUR EXPANSION EFFECTIVELY COULD ADVERSELY AFFECT OUR ABILITY TO INCREASE OUR BUSINESS AND RESULTS OF OPERATIONS.

Our ability to successfully market and sell our products in a rapidly evolving market requires effective planning and management processes. We continue to increase the scope of our operations domestically and internationally and have increased our headcount substantially. We grew from 22 employees on January 1, 1999, to 85 employees on February 15, 2000. In addition, we are currently planning to hire a significant number of additional employees this year. Our past growth, and our expected future growth, places a significant strain on our management systems and resources including our financial and managerial controls, reporting systems and procedures. To manage our growth effectively, we must implement and improve operational and financial systems, train and manage our employee base, attract and retain qualified personnel with relevant experience. We must also manage multiple relationships with customers, business partners, and other third parties, such as our contract manufacturers. Moreover, we will spend substantial amounts of time and money in connection with our rapid growth and may have unexpected costs. Our systems, procedures or controls may not be adequate to support our operations and we may not be able to expand quickly enough to exploit potential market opportunities. If we cannot manage growth effectively, our business would be seriously harmed.

RISKS RELATED TO OUR INDUSTRY

FAILURE OF CONSUMER DEMAND FOR FLAT PANEL DISPLAYS AND OTHER DISPLAY TECHNOLOGIES TO INCREASE COULD IMPEDE OUR GROWTH.

Our product development strategies anticipate that consumer demand for flat panel displays and other emerging display products will increase in the future. The success of our products is dependent on increased demand for these products, which are at early stages of development. The potential size of the flat panel display market and the timing of its development are uncertain and will depend upon a number of factors, all of which are beyond our control. In order for the market for many of our products to grow, advanced flat panel displays must be widely available and affordable to consumers. Currently there is a limited supply of advanced flat panel displays, and increasing the supply of advanced displays is a costly and lengthy process requiring significant capital investment. Accordingly, we do not expect the current shortage of advanced flat panel displays or their high prices to change in the near term. In the past, the supply of advanced flat panel displays has been cyclical. We expect this

pattern to continue. Undercapacity in the advanced flat panel display market may limit our ability to increase our revenues because our customers may limit their purchases of our products if they cannot obtain sufficient supplies of advanced flat panel displays. In addition, advance flat panel display prices may remain high because of limited supply, and consumer demand may not grow if the supply of advanced flat panel displays does not increase.

THE FAILURE OF BROADBAND COMMUNICATIONS TO DEVELOP WILL ADVERSELY AFFECT DEMAND FOR OUR PRODUCTS.

We anticipate deriving significant portions of our future revenues from products that are dependent on the delivery of information via broadband communications. Our business would be negatively impacted if there is a significant slowdown in the development or adoption of broadband communications. Broadband communications may develop more slowly than we anticipate for reasons including introduction of new technologies, consumer pricing, cost and time required to provide broadband infrastructure, lack of industry standards and government regulation. The emergence of industry standards could make our products or those of our customers unmarketable or obsolete and may require us to incur substantial unanticipated development costs to comply with any such new standards.

IF PRODUCTS INCORPORATING OUR SOLUTIONS ARE NOT COMPATIBLE WITH COMPUTER DISPLAY PROTOCOLS, VIDEO STANDARDS AND OTHER DEVICES, THE MARKET FOR OUR PRODUCTS WILL BE REDUCED AND OUR BUSINESS PROSPECTS COULD BE SIGNIFICANTLY LIMITED.

Our products are incorporated into our customers' products which have different parts and specifications and utilize multiple protocols that allow them to be compatible with specific computers, video standards and other devices. If our customers' products are not compatible with the these protocols and standards, consumers will return these products, or consumers will not purchase these products, and the markets for our customers' products could be significantly reduced. As a result, a portion of our market would be eliminated, and our business would be harmed.

INTENSE COMPETITION IN OUR MARKETS MAY REDUCE SALES OF OUR PRODUCTS, REDUCE OUR MARKET SHARE, DECREASE OUR GROSS PROFIT AND INCREASE LOSSES.

Rapid technological change, evolving industry standards, compressed product life cycles and declining average selling prices are characteristics of our market and could have a material adverse effect on our business, financial condition and results of operations. As the overall price of advanced flat panel display screens continues to fall, we may be required to offer our products to manufacturers at discounted prices due to increased price competition. At the same time, new, alternative display processing technologies and industry standards may emerge that directly compete with technologies that we offer. We may be required to increase our investment in research and development at the same time that product prices are falling. In addition, even after making this investment, we cannot assure you that our technologies will be superior to those of our competitors or that our products will achieve market acceptance, whether for performance or price reasons. Failure to effectively respond to these trends could reduce the demand for our products.

We compete with a range of specialized and diversified electronic and semiconductor companies that offer display processors. In particular, we compete against Genesis Microchip, Inc., Macronix International Co., Ltd., Sage, Inc., Silicon Image, Inc., SmartASIC, Inc., STMicroelectronics NV, Trident Microsystems, Inc. and other companies. Potential competitors may include diversified semiconductor manufacturers including Broadcom Corporation, National Semiconductor Corp., Texas Instruments, Inc. and other diversified semiconductor companies. We also compete in some instances against in-house processing solutions designed by our customers. Many of our competitors have longer operating histories and greater resources to support development and marketing efforts. Some of our competitors may operate their own fabrication facilities. These competitors may be able to react faster

and devote more resources to efforts that compete directly with our own. In the future, our current or potential customers may also develop their own proprietary display processors and become our competitors. In addition, start-up companies may seek to compete in our markets. Our competitors may develop advanced technologies enabling them to offer more cost-effective and higher quality solutions to our customers than those offered by us. Increased competition could harm our business, financial condition and results of operations by, for example, increasing pressure on our profit margin or causing us to lose sales opportunities. We cannot assure you that we can compete successfully against current or potential competitors.

THE MARKET FOR INTERNET APPLIANCES MAY NOT EVOLVE RAPIDLY ENOUGH TO SUPPORT EXPANDED MARKET ACCEPTANCE OF OUR PRODUCTS AND INDUSTRY STANDARDS IN THIS MARKET CONTINUE TO EVOLVE.

If the emerging market for Internet appliances does not develop or does not evolve fast enough to support rapid market acceptance of our products, our

business, financial condition and results of operations will be materially and adversely affected. The Internet appliance market includes netTVs, screenphones, e-mail terminals, Web Terminals and Tablets. Our success will depend on our ability to achieve design wins with customers developing new products and enhanced products for the Internet appliance market and their ability to successfully introduce and promote such products. There can be no assurance that the Internet appliance market will develop to the extent or in the timeframes necessary to support expansion of our business. We anticipate that Internet appliance products will be generally based on industry standards, which are continually evolving. The emergence of new industry standards could render our products or our customers products unmarketable or obsolete and we may incur substantial unanticipated costs to comply with any such new standards. Moreover, our past sales have resulted, to a significant extent, from our ability to anticipate changes in technology and industry standards and to develop and introduce new and enhanced products addressing such changes. Our continued ability to adapt to such changes and to anticipate future standards, and the rate of adoption and acceptance of those standards, will be a significant factor in maintaining or improving our competitive position and our prospects for growth. There can be no assurance that we will be able to anticipate the evolving standards in the semiconductor industry and, in particular, the applications in the Internet appliance market, or that we will be able to successfully develop and introduce new products into this market.

THE CYCLICAL NATURE OF THE SEMICONDUCTOR INDUSTRY MAY LEAD TO SIGNIFICANT VARIANCES IN THE DEMAND FOR OUR PRODUCTS.

In the past, the semiconductor industry has been characterized by significant downturns and wide fluctuations in supply and demand. Also, during this time, the industry has experienced significant fluctuations in anticipation of changes in general economic conditions, including economic conditions in Asia. The cyclical nature of the semiconductor industry has led to significant variances in product demand and production capacity. It has also accelerated erosion of average selling prices per unit. We may experience periodic fluctuations in our future financial results because of changes in industry-wide conditions.

RISKS RELATING TO THE OFFERING

THE SUBSTANTIAL NUMBER OF SHARES OF OUR COMMON STOCK ELIGIBLE FOR FUTURE SALE COULD CAUSE THE MARKET PRICE OF SHARES OF OUR COMMON STOCK TO DECLINE.

We will have shares of common stock outstanding immediately after the offering. The shares of our common stock sold in the offering will be freely transferable. Additional shares may be sold in the public market to the extent permitted by Rule 144 or exemptions under the Securities Act of 1933. Lock-up agreements executed by our officers, directors and existing shareholders limit the number of shares of our common stock that may be sold in the public market for periods of up to

180 days. However, Salomon Smith Barney may, in its sole discretion and at any time, release all or some portion of the securities subject to the lock-up agreements. The market price of shares of our common stock could decline as a result of sales of a large number of shares of our common stock in the market after the offering, or the perception that such sales could occur. These factors also could make it more difficult for us to raise funds through future offerings of our common stock.

MANAGEMENT MAY APPLY THE PROCEEDS OF THIS OFFERING TO USES THAT DO NOT INCREASE OUR PROFITS OR MARKET VALUE.

Our management will have considerable discretion in the application of the net proceeds from the offering. The net proceeds may be used for corporate purposes that do not increase our operating results or our market value.

INVESTORS IN THIS OFFERING WILL EXPERIENCE SUBSTANTIAL AND IMMEDIATE DILUTION IN THE BOOK VALUE OF THEIR INVESTMENT.

The initial public offering price of shares of our common stock will be substantially higher than the net tangible book value per share of the outstanding common stock immediately after this offering. Therefore, based upon an assumed initial public offering price of $ per share, if you purchase our common stock in this offering, you will incur substantial and immediate dilution of approximately $ per share. If additional shares are sold by

the underwriters following the exercise of their over-allotment option, or if outstanding options to purchase shares of our common stock are exercised, there will be further dilution of your investment. See "Dilution."

THE ANTI-TAKEOVER PROVISIONS IN OUR ARTICLES OF INCORPORATION COULD ADVERSELY AFFECT THE RIGHTS OF THE HOLDERS OF OUR COMMON STOCK BY PREVENTING A SALE OR TAKEOVER OF US AT A PRICE OR PRICES FAVORABLE TO THE HOLDERS OF OUR COMMON STOCK.

Certain anti-takeover provisions of Oregon law, our articles of incorporation and our shareholder rights plan may make a change in control of our business more difficult, even if a change in control would be beneficial to the shareholders. These provisions may allow the board of directors to prevent changes in the management and control of our business. Under Oregon law, our board of directors may adopt additional anti-takeover measures in the future. One anti-takeover provision that we have is the ability of our board of directors to determine the terms of preferred stock and issue such preferred stock without the approval of the holders of the common stock. At the time of the offering, there are no shares of such preferred stock outstanding. However, because the rights and preferences of any series of preferred stock may be set by the board of directors in its sole discretion without approval of the holders of the common stock, the rights and preferences of this preferred stock may be superior to those of the common stock. Accordingly, the rights of the holders of common stock may be adversely affected.

OUR PRINCIPAL SHAREHOLDERS HAVE SIGNIFICANT VOTING POWER AND MAY TAKE ACTIONS THAT MAY MAKE IT MORE DIFFICULT TO SELL OUR SHARES AT A PREMIUM TO CERTAIN TAKEOVER CANDIDATES.

Immediately after the offering, our executive officers, directors and other principal shareholders will, in the aggregate, beneficially own shares or approximately % of our outstanding common stock, assuming the exercise of all options and warrants held by them. Although these shareholders will not have majority control, they currently have, and likely will continue to have, significant influence with respect to the election of our directors and approval or disapproval of our significant corporate actions. This influence over our affairs might be adverse to the interest of our shareholders. In addition, the voting power of these shareholders, under certain circumstances, could have the effect of delaying or preventing a change in control of our business or otherwise discouraging

a potential acquirer from attempting to obtain control of us, which could prevent our shareholders from realizing a premium over the market price for their common stock.

OUR COMMON STOCK HAS NOT BEEN PUBLICLY TRADED, AND WE EXPECT THAT THE PRICE OF OUR COMMON STOCK MAY FLUCTUATE SUBSTANTIALLY.

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be determined through negotiations between the underwriters and us, and may not be indicative of the price that will prevail in the open market after this offering. An active trading market for our common stock may not develop or be sustained after this offering. You may not be able to sell your shares of our common stock at or above the initial public offering price due to a number of factors, including:

- actual or anticipated fluctuations in our operating results;
- changes in expectations as to our future financial performance;
- changes in financial estimates of securities analysts;
- announcements by us or our competitors of technological innovations, design wins, contracts, standards or acquisitions;
- the operating and stock price performance of other comparable companies;
- changes in market valuations of other technology companies; and
- inconsistent trading volume levels of our common stock.

In particular, the stock prices of technology companies like us have been highly volatile recently. These fluctuations often have been unrelated or

disproportionate to the operating performance of those companies. Market fluctuations as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our common stock. Therefore, the price of our common stock may decline, and the value of your investment may be reduced regardless of our performance.

WE MAY BE UNABLE TO MEET OUR FUTURE CAPITAL REQUIREMENTS WHICH WOULD LIMIT OUR ABILITY TO GROW.

We believe our net proceeds from this offering, together with our existing cash balances and funds available under our credit facility will be sufficient to meet our capital requirements for at least the next 12 months. However, we may need, or could elect, to seek additional funding prior to that time. To the extent that funds generated by this offering, together with existing resources, are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us or our shareholders. Further, if we issue equity securities, our shareholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of our common stock. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled "Prospectus Summary," Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" contains forward-looking information. This forward-looking information is subject to risks and uncertainties including the factors listed under "Risk Factors," Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," as well as elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue," or the negative of these terms or other comparable terminology. These statements are only predictions and may be inaccurate. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined under "Risk Factors." These factors may cause our actual results to differ materially from any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

USE OF PROCEEDS

Based on an assumed initial public offering price of $ per share, our net proceeds from the sale of shares of common stock that we are offering will be approximately $ million after deducting the underwriting discount and estimated expenses payable by us in connection with this offering. If the underwriters exercise their over-allotment option in full, our net proceeds will be approximately $ million.

The principal purposes of this offering are to increase our working capital and other general corporate purposes. See "Management Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." Although we may use a portion of the net proceeds to acquire complementary technologies or businesses, we have no current plans in this regard. Pending such uses, we plan to invest the net proceeds in short-term, interest-bearing, investment grade securities. Management will retain broad discretion in the allocation of the net proceeds of this offering. You will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use the proceeds.

DIVIDEND POLICY

We have never declared or paid cash dividends on shares of our capital stock. We currently expect to retain any future earnings to fund the operation and expansion of our business, and therefore we do not currently expect to pay cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 1999:

- on an actual basis;
- on a pro forma basis after giving effect to:
  - the issuance of 2,239,212 shares of Series D preferred stock on February 22, 2000;
  - the automatic conversion of all outstanding shares of preferred stock into 13,139,219 shares of common stock immediately prior to the completion of the offering; and
- on a pro forma as adjusted basis, after giving effect to the sale of shares of common stock offered by us at an assumed initial public offering price of $ per share after deducting the underwriting discount and estimated offering expenses payable by us, and the receipt of net proceeds from this offering.

	DECEMBER 31, 1999		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS, EXCEPT SHARE DATA)		
Cash and cash equivalents	$12,199	$38,749	
Long-term obligations, net of current portion	591	591	
Redeemable convertible preferred stock, $.001 par value: Authorized 10,993,031 shares; issued and outstanding 10,900,007 shares (actual); no shares (pro forma and as adjusted)	23,701	--	
Common stock, $.001 par value: Authorized 22,000,000 shares; issued and outstanding 6,582,877 shares (actual); 19,722,096 shares (pro forma); shares (as adjusted)	--	52,251	
Deferred stock compensation	(2,230)	(2,230)	
Note receivable for common stock	(199)	(199)	
Accumulated deficit	(6,866)	(6,866)	
Total shareholders' equity (deficit)	(9,295)	$42,956	
Total capitalization	$14,997	43,547	

Common shares exclude:

- 1,942,838 shares of common stock issuable upon the exercise of options outstanding at December 31, 1999 at a weighted average exercise price of $1.49 per share;
- 1,936,494 shares of common stock available for issuance under our 1997 stock incentive plan; and
- 1,000,000 shares of common stock available for issuance under our 2000 employee stock purchase plan.

DILUTION

Our pro forma net tangible book value as of December 31, 1999 was approximately $ million or approximately $ per share. Pro forma net tangible book value per share represents pro forma tangible assets less total liabilities, divided by our pro forma number of outstanding shares of common stock after giving effect to, on a pro forma basis:

- the issuance of 2,239,212 shares of Series D preferred stock on February 22, 2000; and

- the automatic conversion of all outstanding shares of preferred stock into 13,139,219 shares of common stock immediately prior to the completion of the offering.

Without taking into account any changes in such pro forma net tangible book value per share after December 31, 1999, other than to give effect to the sale of the shares of common stock in this offering at an assumed initial public offering price of $ per share after deducting the underwriting discount and estimated expenses payable by us and the receipt of the net proceeds of such sale, the pro forma net tangible book value as of December 31, 1999 would have been approximately $ million or approximately $ per share. This represents an immediate increase in pro forma net tangible book value per share of $ to existing shareholders and an immediate dilution of $ per share to new investors. The following table sets forth this per share dilution:

Assumed initial public offering price per share.....		$
Pro forma net tangible book value per share at December 31, 1999.....	$	
Increase in pro forma net tangible book value per share attributable to this offering.....		

Pro forma net tangible book value per share after the offering.....		

Dilution in pro forma net tangible book value per share to new investors.....		$
		======

The following table summarizes, on a pro forma basis as of December 31, 1999, the differences between the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid by the existing shareholders and by the new investors in this offering, before deducting the underwriting discounts and commissions and estimated offering expenses payable by us, at an assumed initial public offering price of $ per share.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PAID
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing shareholders.....	19,722,096		$47,257,004		$ 2.40
New investors.....					
	----------	---	----------	---	
Total.....	==========	===	==========	===	

The foregoing discussion and table includes the closing of the sale of 2,239,212 shares of Series D preferred stock and excludes:

- 1,942,838 shares of common stock issuable upon the exercise of options outstanding at December 31, 1999 at a weighted average exercise price of $1.49 per share;

- 1,936,494 shares of common stock available for issuance under our 1997 stock incentive plan; and

- 1,000,000 shares of common stock available for issuance under our 2000 employee share purchase plan.

If all options outstanding at December 31, 1999 were exercised, the pro forma net tangible book value per share immediately after completion of the offering would be $, which represents an immediate dilution in net tangible book value per share of $ to purchasers of shares of common stock in the offering. See "Management--Employee Benefit Plans" and the notes to our financial statements for more information on our option plans.

SELECTED FINANCIAL DATA

The following selected financial data should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements, including the related notes found elsewhere in this prospectus. The statement of operations data for the period from January 16, 1997 through December 31, 1997 and years ended December 31, 1998 and 1999 and the balance sheet data as of December 31, 1998 and 1999 are derived from the audited financial statements of Pixelworks included elsewhere in this prospectus, which have been audited by KPMG LLP, independent auditors. The audited balance sheet data as of December 31, 1997 is derived from the audited financial statements not included in this Prospectus.

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31, 1997	YEARS ENDED DECEMBER 31, 1998	YEARS ENDED DECEMBER 31, 1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
STATEMENT OF OPERATIONS DATA:			
Revenue:			
Product revenue, net	$ 25	$ 105	$12,647
Commissions	375	373	65
Licensing and development fees	--	500	100
Total revenue	$ 400	$ 978	$12,812
Cost of revenue	24	22	8,369
Gross profit	376	956	4,443
Operating expenses:			
Research and development	215	1,446	4,805
Selling, general and administrative	590	1,314	4,366
Amortization of deferred stock compensation	--	--	565
Total operating expenses	805	2,760	9,736
Loss from operations	(429)	(1,804)	(5,293)
Interest and other income, net	53	215	409
Loss before income taxes	(376)	(1,589)	(4,884)
Income taxes	--	(14)	(3)
Net loss	(376)	(1,603)	(4,887)
Accretion of preferred stock redemption preference	--	(10)	(4,278)
Net loss attributable to common shareholders	$ (376)	$(1,613)	$(9,165)
Historical loss per share:			
Basic and diluted	$ (0.68)	$ (0.91)	$ (2.30)
Weighted average shares, basic and diluted	552	1,774	3,981
Pro forma loss per share (unaudited):			
Basic and diluted			$ (0.57)
Shares used in computing basic and diluted			16,228

	AS OF DECEMBER 31, 1997	1998	1999
	(IN THOUSANDS)		
BALANCE SHEET DATA:			
Cash and cash equivalents	$ 367	$ 6,119	$12,199
Working capital	568	4,427	12,770
Total assets	1,006	7,676	18,394
Long-term obligations, net of current portion	--	--	591
Redeemable convertible preferred stock	1,216	7,755	23,701
Total shareholders' deficit	(366)	(1,908)	(9,295)

The pro forma statement of operations data presented above reflects the automatic conversion upon the closing of the offering of all outstanding shares of preferred stock into 13,139,219 shares of common stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION SHOULD BE READ TOGETHER WITH OUR FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED ELSEWHERE IN THIS PROSPECTUS. AS USED BELOW, REFERENCES TO THE YEAR ENDED DECEMBER 31, 1997 REFER TO THE PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31, 1997.

OVERVIEW

We design and develop complete system-on-a-chip solutions that enable the visual display of broadband content. Our technology interprets and optimizes video, computer graphics, and visual Web information for display on a wide variety of devices. We have announced products in production with Compaq, Sony and ViewSonic, and have more than 45 customers who are using our solutions in more than 75 products.

During our first year of operation, we were the sole marketing and sales agent of plasma display panels for Fujitsu General America, Inc. in the United States. The relationship began in January 1997 and provided us with operating revenue through the conclusion of the relationship in March 1999. The revenues helped finance research and development of our core business of system-on-a-chip design and the development of our marketing and sales infrastructure.

In December 1998, we began shipping PW364 ImageProcessor ICs, what we believe to be the world's first single-chip flat panel display controller. Additional ICs were introduced in 1999: the PW264 ImageProcessor IC in April and the PW164 ImageProcessor IC in August. These ICs extended the product line into new markets by providing new features for specific display applications at lower price points.

We sell our products worldwide through a direct sales force and indirectly through distributors and manufacturers representatives. Distributors have been established in Japan and Taiwan. Manufacturers representatives support European and Korean sales. In February 2000, sales and marketing offices were established in Japan and Taiwan.

We recognize revenue from product sales to direct customers upon shipment. We recognize revenue from product sales to distributors upon shipment if the distributor has a firm sales commitment from an end customer. Reserves for sales returns and allowances are recorded at the time of shipment.

Historically, significant portions of our product revenue have been from a relatively small number of customers and distributors. Our top five customers, including distributors, accounted for 62.3% of product revenue in 1999. See "Risk Factors--A significant amount of our revenues comes from a few customers and distributors and any decrease in revenues from, or loss of any of, these few customers or distributors could significantly reduce our total revenue" and "Risk Factors--Our dependence on selling through distributors and integrators increases the risks and complexity of our business."

Significant portions of our products are sold overseas. Sales outside the U.S. accounted for 92.8% of revenue in 1999. Our end customers, branded manufacturers and integrators, incorporate our products into systems that are sold worldwide. All revenue to date has been denominated in U.S. dollars. See "Risk Factors--Our international sales account for a significant portion of our revenues, and if we do not successfully address the risks associated with our international operations, our revenues could decrease."

Product gross profit fluctuated over the past several quarters due to a change in mix from low volume chip and evaluation board samples to high volume integrated circuit production. We expect average selling prices to decrease as we move to higher volume, lower cost solutions. Additionally there will be some average selling price reductions for our existing products due to the highly competitive nature of the semiconductor industry. We anticipate that our product gross profit may fluctuate quarter to quarter due to product mix, competitive factors and our move from a turnkey Application Specific

integrated circuit, or ASIC, business model to a customer owned tooling, or COT, business model. See "Risk Factors--Intense competition in our markets may reduce sales of our products, reduce our market share, decrease our gross profit and increase losses."

Within the semiconductor industry we are known as a "fabless" company, meaning that we do not fabricate the semiconductors that we design and develop, but instead rely on third parties to manufacture our products. This business model enables the company to focus on designing, developing, and marketing our products and significantly reduces the amount of capital we need to invest in capital expenditures related to semiconductor manufacturing. See "Risk Factors--We depend on a limited number of contract manufacturers for our products, and we must order products from them based on forecasts from our customers from which we do not have firm purchase orders."

Substantially all of our sales are made on the basis of purchase orders rather than long-term agreements. In addition, the sales cycle for our products is long which may cause us to experience a delay between the time we incur expenses and the time we generate revenue from these expenditures. We intend to increase our investment in research and development, selling, general and administrative functions and inventory as we seek to expand our operations. We anticipate the rate of new orders may vary significantly from quarter to quarter. Consequently, if anticipated sales and shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, seriously harming our operating results for that quarter and, potentially, future quarters. See "Risk Factors--Fluctuations in our quarterly operating results make it difficult to predict our future performance and may result in volatility in the market price of our common stock" and "Risk Factors--Because of our long product development process and sales cycle, we may incur substantial expenses before we earn associated revenues and may not ultimately sell as many units of our products as we forecasted."

RESULTS OF OPERATIONS

The following table sets forth statement of operations data expressed as a percentage of total revenue for the periods indicated.

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31, 1997	YEARS ENDED DECEMBER 31, 1998	YEARS ENDED DECEMBER 31, 1999
Revenue:			
Product revenue, net	6.2 %	10.8 %	98.7 %
Commissions	93.8	38.1	0.5
Licensing and development fees	0.0	51.1	0.8
Total revenue	100.0	100.0	100.0
Cost of revenue	6.0	2.2	65.3
Gross profit	94.0	97.8	34.7
Operating expenses:			
Research and development	53.8	147.8	37.5
Selling, general and administrative	147.5	134.4	34.1
Amortization of deferred stock compensation	0.0	0.0	4.4
Total operating expense	201.3	282.2	76.0
Loss from operations	(107.3)	(184.4)	(41.3)
Interest and other income, net	13.3	21.9	3.2
Loss before income taxes	(94.0)	(162.5)	(38.1)
Income taxes	0.0	(1.4)	0.0
Net loss	(94.0)%	(163.9)%	(38.1)%

YEAR ENDED DECEMBER 31, 1997, 1998 AND 1999

PRODUCT REVENUE. Product revenue increased from $25,000 in 1997 to $105,000 in 1998, and increased to $12.6 million in 1999. Revenues in 1997 and 1998 were primarily from plasma display accessory products sold by us. In December 1998, we shipped our first ImageProcessor ICs. Two additional, lower cost products were introduced in April 1999 and August 1999, respectively, to broaden our addressable market. The increase in revenue from 1998 to 1999 resulted from the introduction of these ImageProcessor ICs.

COMMISSIONS REVENUE. Commissions revenue decreased from $375,000 in 1997 to $373,000 in 1998, and decreased to $65,000 in 1999. Commissions revenue decreased from 1998 to 1999 as a result of the termination of an agreement with Fujitsu General America, Inc. to sell their plasma display products in the United States. We have not recognized commissions revenue since the first quarter of 1999 and do not expect to recognize such revenue in future periods.

LICENSING AND DEVELOPMENT FEES. Licensing and development fees were $500,000 in 1998 and $100,000 in 1999. Licensing and development fees resulted from a 1998 agreement with a major customer to develop a product for exclusive use by the customer for front projection applications. We have not recognized licensing and development fees since the first quarter of 1999 and do not expect to recognize such revenue in future periods.

GROSS PROFIT. Gross profit was 94.0% in 1997 and 97.8% in 1998 as a majority of revenues came from commissions revenue and licensing and development fees. Gross profit decreased from 97.8% in 1998 to 34.7% in 1999 as a result of product revenues as a percent of total revenues increasing from 10.8% in 1998 to 98.7% in 1999.

RESEARCH AND DEVELOPMENT. Research and development expense was $215,000, or 53.8% of total revenue for 1997, $1.4 million, or 147.8% of total revenue in 1998, and $4.8 million, or 37.5% of total revenue for 1999. The increase in absolute dollars was primarily due to the hiring of additional development personnel and outside consultants as well as increased prototype expenses. Although absolute expenses increased from 1998 to 1999, research and development expenses, as a percentage of total revenue, declined. We believe that continued investment in research and development is critical to our strategic objectives and we expect these expenses to increase in the future.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense was $590,000, or 147.5% of total revenue for 1997, $1.3 million, or 134.4% of total revenue for 1998, and $4.4 million or 34.1% for 1999. The year to year increases in absolute dollars were due primarily to the hiring of additional personnel, increases in commissions to independent sales representatives, expanded marketing activities which included our initial product introductions. We expect selling, general and administrative expenses to increase in the future as we add personnel, incur additional costs to support continued growth and implement additional internal systems to support a public company.

AMORTIZATION OF DEFERRED STOCK COMPENSATION. Stock compensation expense was $565,000 or 4.4% of total revenue in 1999. We will incur substantial stock compensation expense in future periods which represents non-cash charges incurred as a result of the issuance of stock options to employees and consultants. At December 31, 1999, the amount of employee unearned compensation was $2.2 million which will be amortized in future periods. Amortization of the December 31, 1999 balance of deferred stock compensation for the years ending December 31, 2000, 2001, 2002 and 2003 is estimated to be $1.1 million, $640,000, $346,000 and $131,000, respectively. With respect to stock options granted to employees, such charges are recorded based on the difference between the deemed fair value of the common stock and the option exercise price of such options at the date of grant.

INTEREST AND OTHER INCOME, NET. Interest and other income, net consists of interest income, interest expense and other non-operating expenses. Interest and other income, net was $53,000, $215,000 and $409,000 in 1997, 1998 and 1999, respectively. The increases are attributable primarily to interest income from cash proceeds from financing activities, partially offset by interest expense related to higher average debt balance.

PROVISION FOR INCOME TAXES. We recorded no provision for income tax in 1997. We recorded income tax expense of $14,000 and $3,000 for 1998 and 1999,

respectively, related to foreign taxes on license fee revenue. As of December 31, 1999 we had approximately $5 million of net operating loss carryforwards to offset against future taxable income. The carryforwards expire on various dates through 2018, if not used. Utilization of net operating losses is subject to an annual limitation due to the changes in ownership provisions of the Internal Revenue Code of 1986 and similar state provisions. We are in a deferred tax asset position, which has been fully reserved. We will continue to provide a valuation allowance for our deferred tax assets until it becomes more likely than not, in our assessment, that our deferred tax assets will be realized.

QUARTERLY RESULTS OF OPERATIONS

The tables below set forth our quarterly results of operations in dollars and as a percentage of revenue for our last four quarters. This data has been derived from unaudited financial statements that have been prepared on the same basis as our annual audited financial statements and, in our opinion, include all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation of this information. These unaudited quarterly results should be read in conjunction with the annual audited financial statements and notes thereto included elsewhere in this prospectus.

	THREE MONTHS ENDED			
	MAR. 31, 1999	JUNE 30, 1999	SEPT. 30, 1999	DEC. 31, 1999
	(IN THOUSANDS)			
STATEMENT OF OPERATIONS DATA:				
Revenue:				
Product revenue, net	$ 451	$ 1,849	$ 4,289	$ 6,058
Commissions	65	--	--	--
Licensing and development fees	100	--	--	--
Total revenue	616	1,849	4,289	6,058
Cost of revenue	163	1,318	2,850	4,038
Gross profit	453	531	1,439	2,020
Operating expenses:				
Research and development	823	1,052	1,342	1,588
Selling, general and administrative	604	915	1,270	1,577
Amortization of deferred stock compensation	4	29	140	392
Total operating expenses	1,431	1,996	2,752	3,557
Loss from operations	(978)	(1,465)	(1,313)	(1,537)
Interest and other income, net	36	74	157	142
Loss before income taxes	(942)	(1,391)	(1,156)	(1,395)
Income taxes	(3)	--	--	--
Net loss	$ (945)	$(1,391)	$(1,156)	$(1,395)

	THREE MONTHS ENDED			
	MAR. 31, 1999	JUNE 30, 1999	SEPT. 30, 1999	DEC. 31, 1999
Revenue:				
Product revenue, net	73.2 %	100.0 %	100.0 %	100.0 %
Commissions	10.6	0.0	0.0	0.0
Licensing and development fees	16.2	0.0	0.0	0.0
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue	26.5	71.3	66.4	66.7
Gross profit	73.5	28.7	33.6	33.3
Operating expenses:				

Research and development	133.6	56.9	31.3	26.2
Selling, general and administrative	98.0	49.5	29.6	26.0
Amortization of deferred stock compensation	0.7	1.6	3.3	6.5
Total operating expenses	232.3	108.0	64.2	58.7
Loss from operations	(158.8)	(79.2)	(30.6)	(25.4)
Interest and other income, net	5.9	4.0	3.6	2.4
Loss before income taxes	(152.9)	(75.2)	(27.0)	(23.0)
Income taxes	0.5	0.0	0.0	0.0
Net loss	(153.4)%	(75.2)%	(27.0)%	(23.0)%

1999 QUARTERLY RESULTS OF OPERATIONS

TOTAL REVENUE. Quarterly revenue increased in each quarter of 1999 from $616,000 in the first quarter ended March 31 to $6.1 million in the fourth quarter ended December 31. The increase in revenue resulted from increasing unit shipments of the PW364 which began shipping in December 1998 and the introduction of two new products, the PW264 and PW164, which began shipping in April and August, respectively.

GROSS PROFIT. As a percentage of total revenue, gross profit decreased from 73.5% in the first quarter of 1999 to 28.7% in the second quarter of 1999 primarily as a result of a decrease in commissions revenue and licensing and development fees, which have higher gross profits than product revenues. As a percentage of total revenue, gross profit increased from 28.7% in the second quarter to 33.6% and 33.3% in the third and fourth quarters, respectively. This increase was a result of a change in product mix which included the introduction of a new product, the PW164, which began shipping in August.

OPERATING EXPENSES. Research and development expense increased in absolute dollars each quarter primarily as a result of an increase in personnel for the development of new products. Selling, general and administrative expense also increased in absolute dollars in each quarter primarily as a result of an increase in sales and marketing personnel to support customer growth. Amortization of deferred stock compensation increased each quarter as a result of additional stock options granted in each quarter.

We believe that period-to-period comparisons of our operating results are not necessarily meaningful. You should not rely on them to predict future performance. The amount and timing of our operating expenses may fluctuate significantly in the future as a result of a variety of factors. We face a number of risks and uncertainties encountered by early stage companies, particularly those in rapidly evolving markets such as the display device industry. We may not be able to address these risks and difficulties successfully. In addition, we may not be able to increase sales to existing customers or add

new customers on a regular basis and our revenue may not grow, and we may not achieve or maintain profitability in the future.

Our quarterly and annual operating results have fluctuated in the past and are likely to fluctuate significantly in the future. It is likely that in some future quarter our operating results will fall below the expectations of securities analysts and investors. In this event, the market price of our common share could significantly decline. See "Risk Factors--Fluctuations in our quarterly operating results make it difficult to predict our future performance and may result in volatility in the market price of our common stock" for more information on the factors affecting our quarterly results.

Our sales cycle, which is typically between two and 12 months, contributed to fluctuations in our quarterly operating results. Most of our operating expenses are relatively fixed in the near term. In addition, our expense levels are based, in part, on our expectations regarding future revenues. As a result, any shortfall in revenues relative to our expectations could cause significant changes in our operating results from quarter to quarter.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have primarily financed operations through private placements of our preferred convertible stock. Through December 31, 1999, gross proceeds from private placements of preferred stock and the exercise common stock purchase warrants issued to investors totaled approximately

$20.8 million. To a lesser extent, we have financed operations through accounts receivable and equipment lines of credit, and the exercise of options and warrants to purchase common stock.

As of December 31, 1999, we had cash and cash equivalents of $12.2 million, an increase of $6.1 million from cash and cash equivalents held as of December 31, 1998. The increase was due primarily to the sale of our preferred stock, which raised $11.7 million, and the exercise of warrants, which raised $1.3 million, offset by cash used in operating activities and purchases of property and equipment and other assets.

In July 1998, we entered into an equipment credit facility with Silicon Valley Bank, which provided for borrowings of up to $1.5 million through January 1999 followed by a 36 month period of equal payments of principal and interest, secured by all accounts, inventory, equipment and fixtures. The stated interest rate under this facility is the bank's prime rate plus .50%, which equaled 9.0% as of December 31, 1999. On December 31, 1999, we had $1.1 million outstanding under this credit facility and were in compliance with all credit facility covenants. In March 1999, we entered into a line of credit agreement with Silicon Valley Bank, which provides for borrowings of up to $3.0 million based on 80% of eligible accounts receivable and secured by all accounts, inventory, equipment, fixtures and general intangibles. Additionally, we have agreed not to sell, assign, mortgage, transfer, lease, grant a security interest in or encumber our intellectual property without Silicon Valley Bank's prior consent and have agreed to maintain a quick ratio (quick assets to current liabilities) of 1-to-1, a debt/net worth ratio (total liabilities minus subordinated debt to tangible net worth plus subordinated debt) of not more than 2-to-1 and a tangible net worth of as least $2.9 million. Borrowings accrue interest at the bank's prime lending rate plus .25%, which equaled 8.75% as of December 31, 1999. On December 31, 1999, we were in compliance with all line of credit covenants, had borrowed $0.7 million under this line of credit and an additional $1.5 million was available for borrowing.

Net cash used in operating activities was $306,000 in 1997, $901,000 in 1998, and $5.0 million in 1999. These net cash outflows resulted from operating losses as well as increases in accounts receivable due to increased sales and inventory and were partially offset by increases in accounts payable and accrued liabilities.

Net cash used in investing activities was $553,000 in 1997, $1.3 million in 1998, and $2.2 million in 1999. In 1997, the use of cash was attributable to purchases of short-term investments and property equipment. In 1998 and 1999, the use of cash was primarily attributable to purchases of property and equipment.

Net cash provided by financing activities was $1.2 million in 1997, $7.9 million in 1998 and $13.3 million in 1999. In 1997, cash provided by financing activities was primarily attributable to the issuance of convertible preferred stock. In 1998, cash provided by financing activities was attributable to proceeds from the financing of equipment and the issuance of convertible preferred stock. In 1999, cash provided by financing activities was attributable to proceeds from borrowings against the accounts receivable line of credit and proceeds from the issuance of common stock, warrants and convertible preferred stock.

In February 2000, we raised $26.55 million through the issuance of shares of our Series D preferred stock to strategic investors. The participants include: Analog Devices, Compaq, Sanyo, Seiko-Epson, Toshiba, ViewSonic and a major semiconductor company.

As of December 31, 1999, our principal commitment consisted of obligations outstanding under operating leases. In June 1999, we agreed to lease approximately 23,400 square feet in a facility located in Tualatin, Oregon, for a term of 60 months. The first year annual cost of this lease is approximately $312,000, increasing to an approximate annual cost of $462,000 for the next two years and an approximate annual cost of $497,000 for the remaining two years. Although we have no other material commitments, we anticipate a substantial increase in our capital expenditures consistent with anticipated growth in our operations, infrastructure and personnel. In the future we may also require a larger inventory of products in order to support anticipated growth in our business.

In February of 2000, we licensed rights to two patents from InFocus Systems,

Inc. The terms of the license call for four quarterly payments of $600,000 beginning on March 31, 2000.

From time to time, we may evaluate acquisitions of businesses, products or technologies that compliment our business. Although we have no current plans in this regard, any transactions, if consummated, may consume a material portion of our working capital or require the issuance of equity securities that may result in further dilution to existing shareholders.

We intend to substantially increase our operating expenses. These operating expenses will consume a material amount of our cash resources, including a portion of the net proceeds of this offering. We believe that the net proceeds from this offering, together with existing cash balances and funds available under our existing credit facilities, will be sufficient to meet our capital requirements for at least the next 12 months. After this period, capital requirements will depend on many factors, including the levels at which we maintain accounts receivable and inventory. We may need to raise additional funds, and additional financing may not be available on favorable terms, if at all. Further, if we issue additional equity securities, shareholders may experience dilution, and the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If we cannot raise funds, if needed, on acceptable terms, we may not be able to develop new products or enhance our existing products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. This may seriously harm our business and results of operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our cash equivalents and short-term investments are exposed to financial market risk due to fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. We manage the exposure to financial market risk by performing ongoing evaluations of our investment portfolio and investing in short-term investment-grade corporate securities. These

securities are highly liquid and generally mature within 12 months from our purchase date. Due to the short maturities of our investments, the carrying value approximates the fair value. In addition, we do not use our investments for trading or other speculative purposes.

We have performed an analysis to assess the potential effect of reasonably possible near-term changes in interest and foreign currency exchange rates. The effect of such rate changes is not expected to be material to our results of operations, cash flows or financial condition. All transactions to date have been denominated in United States dollars.

As of December 31, 1999 our cash included money market securities. Due to the short duration of our investment portfolio, an immediate 10% change in interest rates would not have a material effect on the fair market value of our portfolio. Therefore, we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our securities portfolio.

FOREIGN CURRENCY EXCHANGE RISK

We are an international company, selling our products globally and, in particular, in Japan, Taiwan and Korea. Although we transact our business in U.S. dollars, we cannot assure you that future fluctuations in the value of the U.S. dollar would not affect the competitiveness of our products, gross profits realized, and results of operations. Further, we incur expenses in Japan, Korea and Taiwan and other countries that are denominated in currencies other than U.S. dollars. We cannot estimate the effect that an immediate 10% change in foreign currency exchange rates would have on our future operating results or cash flows as a direct result of changes in exchange rates. However, we do not believe that we currently have any significant direct foreign currency exchange rate risk and have not hedged exposures denominated in foreign currencies or any other derivative financial instruments.

INFLATION

The impact of inflation on our business has not been material since our inception.

RECENTLY ISSUE ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement on Financial Accounting Standards, or SFAS, No. 133, Accounting For Derivative Instruments and Hedging Activities. SFAS No. 133 establishes a new model for accounting for derivatives and hedging activities and supersedes and amends a number of existing accounting standards. SFAS No. 133 requires that all derivatives be recognized in the balance sheet at their fair market value, and the corresponding derivative gains or losses be either reported in the statement of operations or as a deferred item depending on the type of hedge relationship that exists with respect to such derivative. SFAS No. 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. We do not expect the adoption of SFAS No. 133 to have a material impact on our results of operations.

YEAR 2000

No significant Year 2000 problems arose. No significant expenditures related to the Year 2000 are expected.

BUSINESS

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS DISCUSSED IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT MAY CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN "RISK FACTORS."

OVERVIEW

We design and develop complete system-on-a-chip solutions that enable the visual display of broadband content through a wide variety of electronic devices. Broadband content includes a combination of video and data delivered to users at high speeds. Enhancing access to broadband information has typically been associated with increasing bandwidth over the "last mile." We are focused on the "last meter," where the information is processed and displayed. In the last meter, there is an increasing requirement to rapidly process large amounts of data delivered using a multitude of broadcast and Web protocols. Our system-on-a-chip solutions open up the last meter by interpreting and optimizing video, computer graphics, and visual Web information for display on a wide variety of devices.

We design our solutions to combine our highly integrated system-on-a-chip ICs with easy to use, feature-rich software. We pioneered our design architecture in technically demanding high-end display markets such as high-resolution flat panel monitors and multimedia projectors. We have developed products that extend our solutions into existing high-volume, mass markets such as XGA-resolution flat panel monitors. We intend to develop solutions for emerging mass-market segments such as Internet appliances, where we can leverage our system-on-a-chip expertise.

Our system-on-a-chip solutions enable the creation of differentiated products and reduce circuit board size and development costs while enhancing product performance. Our systems-level architecture gives our customers a high degree of flexibility to optimize and customize their products. This significantly improves their time to market for an expanding array of broadband appliances, the electronic devices that process and display broadband content. We have announced products in production with Compaq, Sony and ViewSonic, and have more than 45 customers, including seven out of the top 10 monitor brands and 10 out of the top 15 television brands. Currently more than 75 products are in development or production using our ImageProcessor system-on-a-chip solutions.

INDUSTRY BACKGROUND

The increasing availability of high-speed access to broadband content is transforming the way we see and use information. The amount of information that can be transmitted at high speeds over long distances is increasing dramatically. At the same time, technologies such as digital subscriber lines, or DSL, cable modems, and fast ethernet are allowing end users to receive data through significantly increasing bandwidth in the "last mile." According to IDC, broadband access is expected to grow at a compounded annual growth rate of 185% from 1999 to 2003. In order to take full advantage of the large amounts of visual information arriving at the last meter, users are demanding more

sophisticated display devices capable of showing text, graphics and full motion video simultaneously. These devices include flat panel monitors, high definition televisions, or HDTVs, multimedia projectors, and Internet appliances. Independent research firms are projecting significant growth for these devices over the next several years:

- DisplaySearch estimates that the market for flat panel monitors will grow from 4.5 million units in 1999 to 23.2 million units in 2004, a compound annual growth rate of 39%.

- Stanford Resources estimates that the market for HDTVs will grow from 1.5 million units in 1999 to 2.9 million units in 2004, a compound annual growth rate of 14%.

- Pacific Media Associates estimates that the market for multimedia projectors will grow from 750,000 units in 1999 to 1.6 million units in 2003, a compound annual growth rate of 21%.

- IDC estimates that an emerging category of devices including netTVs, screenphones and other Internet appliances will grow from 7.9 million units in 1999 to 29.3 million units in 2004, a compound annual growth rate of 31%.

Today, the convergence of television and computer applications is creating new development opportunities for display devices that integrate the ability to process full motion video and support interactive capabilities. The convergence results in higher requirements for throughput and a corresponding higher level of complexity in processing, interpreting and displaying information. While significant growth is forecasted for display devices, the increasing need to rapidly process large amounts of data delivered using a multitude of broadcast and Web protocols could constrain this growth. This bottleneck limits access to the full visual potential of broadband content.

Developing the technology to cost effectively meet the breadth and complexity of new display devices poses several technical challenges. First, the signals delivering content to these devices include analog, digital and video information that has been encoded using a combination of standard and non-standard industry protocols. This information must be translated and optimized at multi-gigabit rates to match the functionality and display characteristics of the varying devices. Second, these new devices require visual information to be displayed in a wide variety of resolutions and formats. Each signal, whether analog or digital, must be manipulated to properly display the appropriate image in the correct format on the device. Third, all of these differing signals, protocols and formats need to be processed without compromising the visual quality of the information displayed.

Another challenge is created by the frequent introduction of higher resolution display standards designed to meet end users' expectation for higher quality images. Higher computer resolution formats are emerging such as super and ultra extended graphics array, or SXGA and UXGA, as are new high definition television formats. The industry is seeking to address some of this complexity and to accelerate the acceptance of flat panel displays through the development of new standards such as the Digital Visual Interface, or DVI, specification. However, even with development of these standards, today's technology is reaching its physical limit of transmitting and receiving image data. New standards are required to increase the available bandwidth in the last meter. Without new standards, the adoption of advanced high-resolution, high-performance display products may be impeded.

Furthermore, the traditional design approach of creating "hard-wired" solutions for discrete problems results in single-purpose solutions that are difficult to re-configure for new products. The resulting fixed functionality combined with the lengthy design cycles for new products has made it difficult for developers to quickly design high-performance, flexible, multi-featured, and affordable new devices.

PIXELWORKS SOLUTION

Our highly integrated solution, the ImageProcessor system-on-a-chip, breaks through the bottleneck which has been limiting access to broadband content. Our system-on-a-chip solutions are capable of interpreting and optimizing high-speed video, computer graphics and Web information in real time. Our products can also process analog and digital input sources ranging from VGA to QXGA computer

resolutions and the latest high definition television standards. We enable our customers to quickly integrate our products into their own advanced display development programs with our hardware and software solutions. We provide our customers with a new design approach that lets them address all of their display solutions within a single architectural platform that is software compatible across product lines.

We have embraced a systems architecture design process rather than a discrete component-based design process. Our tested and proven solutions have the advantage of combining an embedded microprocessor and corresponding peripherals with embedded memory. This approach enables our customers to substantially increase functionality, reduce time to market, and lower overall development costs in highly efficient designs that support miniaturization. Our highly integrated design enables our

customers to significantly reduce the selection, sourcing, testing, integration, debugging, and design of separate components by combining as many as 10 separate components into a single chip.

The following diagram illustrates the high level of integration of our solution which results in reduced complexity, cost and time to market.

Description of graphics on page :

This graphic is entitled "Pixelworks ImageProcessor System-on-a-Chip Integration." The subtitle of this graph reads as follows: "Block Diagram Representation for SXGA-Resolution, Multimedia LCD Monitor." A further subtitle, positioned just above the graphic, reads: "Pixelworks Integrates Up to 10 Chips onto a Single Chip." Two discrete diagrams are positioned side by side. The left diagram shows an arrow pointing downward toward a group of 10 boxes connected by black lines with a second downward-pointing arrow at the bottom. All components of the diagram are shaded by black lines with a second downward-pointing arrow at the bottom. All components of the diagram are shaded gray and are represented as three-dimensional. Text inside the top arrow reads "Input Source." Reading from top to bottom, left to right, the individual boxes are labeled as follows: "Microprocessor," "Scaler," "Video Processor," "Frame Rate Conversion," "Auto Image Optimization," "Color Compensation," "On-Screen Display," and three individual boxes labeled "Frame Buffer Memory." Lines connect all of the boxes with arrowheads pointing at each of the boxes. The bottom downward-pointing arrow is labeled "Output to Display." The diagram on the right side shows an arrow pointing downward to a single box comprised of small, sub-sections and another downward-pointing arrow at the bottom. All components of the diagram are shaded gray and are represented as three-dimensional. The top arrow is labeled "Input Source." Within the single box, there is one large box containing smaller boxes. This large box is shaded in black with white letters reading "Pixelworks Software." A slightly smaller, gray box is positioned within the larger box and is labeled "ImageProcessor IC." Within this smaller gray box are eight smaller boxes which read as follows from top to bottom, left to right: "Microprocessor," "Scaler," "Video Processor," "Frame Rate Conversion," "Auto Image Optimization," "Color Compensation," "On-Screen Display," and "Frame Buffer Memory." Below the box is an arrow labeled "Output to Display." Five semi-transparent, gray trapezoids link the left and right diagrams with the first top trapezoid connecting the top row of blocks of the left diagram to the top row of smaller blocks in the right diagram. The second trapezoid connects the second row of blocks in the left diagram to the second row of smaller blocks in the right diagram with this pattern continuing for rows three through five in each diagram.

Key benefits of our solution include:

CONSISTENT, SCALABLE ARCHITECTURE ACROSS MULTIPLE PRODUCTS. Our system-on-a-chip solutions, comprised of both hardware and software, can be easily implemented across multiple device models and display product categories. Customers can significantly reduce development investments by leveraging a single effort to create a line of products, a benefit we believe to be unique to our architecture. Many of our customers are taking advantage of this capability. For example, Compaq is using our ImageProcessor architecture in both flat panel display monitors and a multimedia projector, all leveraged from the same development effort.

BROAD COMPATIBILITY. Our products work with a broad range of input sources and interface standards. Our ImageProcessor ICs instantly recognize, interpret, and optimize video and computer graphics for display on a wide variety of devices used in the home and office. This allows our customers to use our

system-on-a-chip solutions in products that address multiple market segments and applications. For example, ViewSonic has used our architecture to design flat panel monitors that have

five data inputs--two analog, two digital, and one video--with resolutions up to UXGA, or 1600 by 1200 pixels.

FEATURE IMPLEMENTATION. Our solution gives our customers a large variety of features required for the most demanding applications. Such features include picture-in-picture, video rotation, projected image correction, and digital zoom. Our programmable architecture also allows our customers to develop special features that differentiate their end products.

RAPID TIME TO MARKET WITH LOWER DEVELOPMENT COSTS. Our customers leverage our architecture from one project to the next, lowering their overall development costs and promoting efficient design processes. We offer our customers ready-to-implement software modules supporting basic product feature sets for high volume product segments.

PIXELWORKS STRATEGY

Our objective is to be a leading provider of system-on-a-chip solutions enabling universal access to broadband content through a wide array of targeted devices in consumer and business markets. The key elements of this strategy are:

DESIGN AND SELL INCREASINGLY INTEGRATED SYSTEMS-LEVEL SOLUTIONS. We intend to continue to combine more and more of the functionality required to open up the last meter of broadband content delivery. We believe that we have developed the first mass produced 0.25 micron ICs that include true system-on-a-chip capability, including an integrated microprocessor and peripherals, 4 megabytes of ultra high bandwidth dynamic random access memory, or DRAM, and a high performance digital signal processing, or DSP, core capable of processing high resolution images. We anticipate that future products may integrate advanced functionality required for broadband appliances.

DELIVER HIGHLY FLEXIBLE, SCALABLE AND PROGRAMMABLE SOLUTIONS. Unlike component IC suppliers, our system-on-a-chip solution includes both silicon circuitry and software. Our ready-to-implement software modules shorten our customers' development time by giving them the option to reduce or eliminate their own custom development. Systems using our design architecture can handle resolutions as high as QXGA, which requires more than 5 gigabits of bandwidth per second. Our strategy is to continuously provide our customers with new software, driving higher levels of performance and functionality.

EXPAND FROM HIGH-END MARKETS INTO MASS MARKETS. We targeted our initial products at the most challenging segments of the market: high-resolution flat-panel monitors and multimedia projectors. These technically demanding products were and continue to be a proving ground for our core architecture and product concepts. Our products have been widely accepted in these markets. Our strategy is to leverage our technology advantage and market acceptance by offering many of the same capabilities in system-on-a-chip solutions specifically designed for higher volume markets, such as flat panel monitors. We also expect these markets to include emerging applications, such as Internet appliances, screenphones and netTVs.

SUPPORT AND DEFINE INDUSTRY STANDARDS. Development and broad industry support of interface standards is critical to the continued adoption of flat panel displays and future broadband appliances. The current generation of standards is inadequate for the processing and display of next-generation broadband content. Future standards will have to address new device requirements such as higher resolutions, larger formats, multiple displays and bandwidth in excess of 5 gigabits per second. Our philosophy has been to support accepted industry standards including the DVI standard developed by the Digital Display Working Group. Moving forward we expect to be more proactive in the definition of new standards to drive the adoption of advanced display products.

In support of this strategy, concurrent with the closing of our Series D preferred stock offering, we began collaborating with Intel Corporation to develop a new interface specification for next generation digital displays. Pixelworks intends to develop a new integrated circuit that embodies that new specification, which we anticipate will incorporate functionality included in the current DVI standard as well as additional features useful for driving next generation displays. We have committed to offer the

specification to the Digital Display Working Group for inclusion in future widely available specifications.

BUILD STRATEGIC RELATIONSHIPS. We intend to continue to work closely with strategically important partners to develop widely useful solutions as our next-generation products. Those strategically important partners may be our customers, our suppliers, or participants in the industry whose own strategic interests lead them to work with us. In February 2000, we invited a select list of such strategic investors to participate in our Series D investment round based on their ability to offer competitive advantages to us as market channels, or as suppliers, or as technology collaborators, in areas of strategic importance to us such as monitors and televisions for mass markets, next-generation high performance displays, and broadband appliances. Participants in the Series D offering include: Analog Devices, Compaq, Sanyo, Seiko Epson, Toshiba, ViewSonic and a major semiconductor company.

PRODUCTS

Our design architecture combines our ImageProcessor ICs, embedded software and software development tools which enable our customers to quickly integrate our system-on-a-chip solutions into their end products. Designs using our solutions are portable across different product lines and models. All of our products are manufactured using state-of-the-art deep-submicron processes.

In December 1998, we began shipping the PW364 ImageProcessor IC, which we believe to be the world's first single-chip flat panel display controller. Additional ICs were introduced in 1999; the PW264 ImageProcessor IC in April and the PW164 ImageProcessor IC in August. These ICs extended the product line into new markets by providing new features for specific display applications at lower price points.

In December 1999, the Society for Information Display, or SID, recognized our PW364 and PW264 ImageProcessor ICs with the "Display Material or Component of the Year Gold Award," a distinguished technical recognition in the advanced display industry. The winners of the SID INFORMATION DISPLAY MAGAZINE Display of the Year Awards are selected by a committee of display technologists and leading editors who cover the display industry.

All of our ImageProcessor IC solutions include the following features:

- INTELLIGENT IMAGE PROCESSING--interprets and resizes incoming image signals to match the aspect ratio and fixed resolution of the target display device

- ADAPTIVE IMAGE OPTIMIZATION--identifies and configures the incoming signal to produce the best possible image

- ADVANCED VIDEO SUPPORT--recognizes and optimizes incoming video signals, including HDTV, for a wide variety of display resolutions

- SOFTWARE COMPATIBILITY--allows customers to rapidly create products across product lines and categories

Modular features of our ImageProcessor IC solutions include:

- MAXIMUM INPUT RESOLUTION--the highest level of incoming signal resolution supported by a specific ImageProcessor IC

- MAXIMUM OUTPUT RESOLUTION--the highest level of resolution a specific ImageProcessor IC can provide to the actual display

- PICTURE-IN-PICTURE--the ability to overlay and view one image source simultaneously with another image source in a resizable and movable window

- KEYSTONE CORRECTION--allows users to adjust the image electronically in order to project a "squared-up" image from a range of projection angles

Our current ImageProcessor ICs are:

	MARKET			MODULAR FEATURES				
	ADVANCED TELEVISION	COMPUTING	BUSINESS PRESENTATION	MAX. IMINPUTOCESSOR RESOLUTION	MAX. OUTPUT RESOLUTION	PICTURE-IN-PICTURE	KEYSTONE CORRECTION	APPLICATIONS
PW364	X	X		UXGA	UXGA	X		Full-featured SXGA, UXGA Multimedia Monitors and TVs
PW364D			X	UXGA	UXGA	X	X	Full-featured SXGA, UXGA Multimedia Projection
PW264	X	X		SXGA	XGA	X		Full-featured XGA Monitors
PW264-K	X		X	SXGA	XGA	X	X	Mainstream XGA Projection
PW164W-20	X		X	UXGA	SXGA		X	Low Cost XGA Projection Pin Compatible with PW364/PW264
PW164-10R		X		SXGA	XGA			15 in. XGA Multimedia Monitors
PW164-20R		X		UXGA	SXGA			17-18 in. SXGA Multimedia Monitors
PW164-10RK	X		X	SXGA	XGA		X	Cost-sensitive XGA/SVGA Projection
PW164-20RK	X		X	UXGA	SXGA		X	Cost-sensitive SXGA Projection
PWSR-01 Chip Set		X		QXGA	QXGA	X		Super Resolution Monitors

Notes:

Resolution standards			
SVGA	800 X 600 pixels	UXGA	1600 X 1200 pixels
XGA	1024 X 768 pixels	WUXGA	1900 X 1200 pixels
SXGA	1280 X 1024 pixels	QXGA	2048 X 1536 pixels

OUR SOFTWARE

We provide a complete software development environment that helps customers reduce their time to market by providing an embedded operating system, source code and tools necessary to customize display devices. Our Software Development Kit enables product differentiation through rapid customization of features, performance, and device look and feel with fast time to market and reduced development costs. Our software provides a consistent development platform that is portable across product lines and product categories.

The Software Development Kit includes:

- Embedded "C" language, object-oriented source code and libraries;
- Software that provides automatic image optimization, compatible with a wide range of analog, digital, and video formats;
- Application programming interfaces that allow the customer to address our software and hardware functionality at a high level;
- Support for a wide range of hardware devices; and
- Windows-based utilities:
  - GUIBuilder--allows the customer to build graphical on-screen user

interfaces

- Display Configurator--allows the customer to configure timing for particular display panels

- FlashUpgrader--allows the customer to download firmware

- PW Debug--gives the customer the capability for interactive debugging of the system over a serial interface

FUTURE PRODUCT DEVELOPMENT

We plan to develop new system-on-a-chip solutions which address customer demand and are logical extensions of our design architecture. Higher levels of integration may include adding analog to digital converters, video decoders and DVI compliant digital receivers. These higher levels of integration will further reduce the number of components on circuit boards and help to lower overall system costs. Future products may incorporate functionality targeted at Internet appliance and advanced video applications.

TECHNOLOGY

Our core competency in IC design involves an innovative methodology for developing complex system-on-a-chip designs. Our designs are based on self-contained modules that can be reassembled and reused in new development programs. We extensively simulate and test our designs using the best available simulation and synthesis tools and internally developed proprietary validation tools. We work closely with our foundry partners to use state-of-the-art deep-submicron process technology.

We have used this design methodology to produce first-turn silicon success, as demonstrated in our development of what we believe to be the world's first 0.25 micron system-level integration application-specific ICs with embedded DRAM.

IMAGEPROCESSOR IC TECHNOLOGY

UNIQUE ON-CHIP INTEGRATION OF MICROPROCESSOR, MEMORY AND DIGITAL SIGNAL PROCESSOR. Our system-on-a-chip architecture features an embedded x86-compatible microprocessor and peripherals, 4 megabytes of ultra high bandwidth DRAM, and a high performance DSP core. Our proprietary memory system architecture enables up to 33.2 gigabits per second of bandwidth, and our DSP enables processing of image resolutions as high as QXGA, which requires more than 5 gigabits of bandwidth per second. By integrating the microprocessor and peripherals, memory, and DSP our products provide a complete solution to the core electronics of a display device.

BROAD INTERFACE FLEXIBILITY. Our ImageProcessor ICs work with analog or digital input sources, ranging from VGA to QXGA computer graphics resolutions, and the latest HDTV video.

COMPLETE SOFTWARE DEVELOPMENT ENVIRONMENT. We provide an embedded operating system, source code, and software tools necessary to customize display devices. Our software development environment includes a proprietary Windows based user interface creation tool, GUI Builder, that enables customers to create finished products with a distinct "look and feel." The GUI Builder also allows our customers to easily create multiple differentiated products. In addition to controlling the user interface our software forms the heart of the real time system at the core of any modern display product. Our software provides a consistent development platform that is portable across product lines and product categories. For example, a customer that develops a projector product that uses our software can easily port that software to a monitor. This benefits the customer by dramatically reducing time to market and providing a unique "look and feel" that delivers a consistent customer experience across an entire product portfolio.

INTELLIGENT IMAGE PROCESSING TECHNOLOGY

Our technology supports multi-standard analog and digital video, including digital television or DTV, HDTV, National Television Standards Committee, or NTSC, PAL and SECAM. Our intelligent image processing solution simplifies the use and development of display devices. Features of our technology include the following:

IMAGE SCALING AND SHAPING Our image processing technology incorporates a proprietary programmable two-dimensional image scaler capable of resizing images to fit a wide variety of aspect ratios, the ratio of width to height of display screens, and resolutions. With our scaler, images can be adapted to aspect ratios ranging from traditional 4:3 aspect ratios of conventional computer monitors and televisions to the 16:9 format used in wide screen HDTVs. In addition, content designed for a certain resolution can be intelligently stretched or reduced in real time to fit a new resolution for a specific display without degrading the image. For example low-resolution images are processed by intelligently adding information, so that when the new image is displayed, it looks smooth without any jagged image areas. High-resolution content can be displayed on lower resolution displays by intelligently removing information without degrading image quality.

Our technology allows the shape of an image to be changed in multiple dimensions. This is useful in compensating for optical distortions in products such as front projection systems and rear projection televisions. For example, standard resolution videotapes designed for conventional television display can be resized and formatted for display on a high-resolution wide-screen flat panel television without degrading the image. This capability is increasingly important as HDTV becomes more prevalent. HDTV content can be delivered in as many as 18 different combinations of resolutions and aspect ratios. Our technology is also useful in compensating for optical distortions introduced by the lenses used in products such as front projection systems and rear projection TVs.

ADAPTIVE IMAGE OPTIMIZATION. Our products must interface to a broad array of standard and non-standard protocols. As a result, intelligent methods of acquiring and identifying a signals format must be used. We use a proprietary image processing circuit that can automatically determine the key parameters of an arbitrary input signal and through our software drivers configure the system to produce the best possible image. Our adaptive image optimization technology automatically adjusts incoming signals to achieve the highest possible image quality. The display adjusts itself when it is turned on and continuously adjusts with every change of the incoming signals to display an optimal image.

ADVANCED VIDEO PROCESSING. Flat panel displays are progressive scan devices. Images are built and displayed sequentially one row or line at time. Typically, video signals are interlaced or built using every other row. First the odd rows are displayed and then the image is updated with the even rows. Our image processing technology converts the incoming interlaced video signals for display on flat panels by doubling the incoming signals to match the progressive scan capabilities of flat panel displays. This is

an especially difficult challenge. Simply merging the odd and even fields results in very jagged image edges. Our intelligent approach uses a sophisticated video digital signal processing technique to display the best possible image.

COLOR COMPENSATION TECHNOLOGY. Our sophisticated custom color compensation technology makes it possible to display consistent color images from video and computer graphics, which use very different color palettes, on different display devices. Our color processing technology compensates for variations in the color performance of a display. Using our unique approach any color can be addressed independently and adjusted without impacting other colors. Our customers can use our color compensation technology to compensate for non-uniform color in a specific display and to provide consistent color performance across multiple products using different display technologies. It can also be used to compensate for color variations in display components provided by different vendors.

Our non-linear color compensation technology allows precise color matching and may enable products which can precisely represent the color of the original source. The applications of this technology include graphic design where colors on a display using an ImageProcessor IC can be accurately matched to a print output. Another application is for improving end-user satisfaction when using Internet e-commerce shopping sites by enabling exact color representation of products to be shown on a display.

FULLY CUSTOMIZABLE ON-SCREEN DISPLAY

Our technology couples an integrated on-screen display controller with a unique Windows-based application that allows customers who are designing

ImageProcessor ICs into their display products to quickly develop and implement their own unique user interfaces that can incorporate graphics and colorful icons to support branding in start-up displays and menus.

CUSTOMIZABLE FEATURE SUPPORT FOR SPECIFIC DEVICE FUNCTIONALITY

This allows developers to add unique features for specific devices. Customizable features currently include:

- Picture-in-picture for products in the consumer multimedia, high-end desktop monitors and business presentation markets

- Image shaping for keystone correction in business presentation products

- Digital zoom to enlarge images electronically

MIXED SIGNAL SUPPORT

Our ImageProcessor ICs can support as many as four different input sources to be displayed on a single device through integrated and add-on analog and digital receivers and connectors. Analog computer graphics, TMDS digital graphics supporting the DVI standard and video through composite and S-Video sources can be captured, decoded and optimized.

CUSTOMERS, SALES AND MARKETING

We have achieved design wins with global leaders in the business computing and consumer electronics markets. We have announced products in production with Compaq, Sony and ViewSonic and have more than 45 customers who are using our system-on-a-chip solutions in over 75 products. Our customer list includes seven out of the top 10 monitor brands and 10 out of the top 15 television brands.

The key elements of our sales and marketing strategy are to achieve design wins with industry leading branded manufacturers in targeted markets and to continue building strong customer-supplier

relationships. Once a design win has been achieved, sales and marketing efforts are focused on building long-term mutually beneficial business relationships with our customers by providing superior technology which complements their product development objectives and meets their expectations for price-performance and time to market. Marketing efforts are focused on building market-leading brand awareness and preference for our system-on-a-chip solutions.

We sell our products to and support our U.S. customers directly. Our global distribution channel is multi-tiered and involves:

- Manufacturers Representatives--Independent sales agents who represent us in local markets and provide pre- and post-sales support and do not carry inventory

- Distributors--Resellers in local markets who provide pre- and post-sales support and stock our ImageProcessor ICs in direct relation to specific manufacturing customer orders

- Integrators--OEM customers who build display devices based on specifications provided by branded manufacturers

- Branded Manufacturers--Globally recognized manufacturers who develop display device specifications, manufacture, market and distribute display devices either directly or through resellers to end-users

In Japan, our products are primarily sold through our distributor, Tokyo Electron Device who represented 54.8% of our 1999 total revenue. Sales through Tokyo Electron Device to Seiko Epson and Hitachi represented 23.3% and 11.2% of our 1999 total revenue, respectively. In Taiwan, we primarily sell through our distributor MicroMax International who represented 23.6% of our 1999 total revenue. Sales through MicroMax to Optoma Corp., formerly known as CTX Opto-Electronics, an integrator for Compaq, represented 13.4% of our 1999 total revenue. We support our European and Korean customers through direct sales supported by manufacturer representatives. We sell our products to and support our U.S. customers directly.

Our sales and marketing team included 36 employees as of February 15, 2000. The sales and marketing team includes the architecture support team of 21 application engineers who provide technical expertise and assistance to manufacturing customers on final product development. In February 2000, we established sales and marketing offices in Japan and Taiwan.

RESEARCH AND DEVELOPMENT

Since our inception, our internal research and development efforts were focused primarily on the development of our PW364 ImageProcessor IC for the high-end multimedia projection and flat panel monitor markets. In 1998, our development efforts for the PW264 were focused on extending our technology into new markets. In 1999, our development efforts for the PW164 product series were focused on developing highly efficient designs while maintaining product performance and features.

We are now pursuing higher levels of integration of new features in order to extend our system-on-a-chip solutions into new market segments. These higher levels of integration will further reduce components on circuit boards and help to lower final systems costs for our customers. Future development efforts include system-on-a-chip technologies required for Internet appliance and advanced video applications.

In addition to our 21 applications engineers we have 36 engineers, technologists and scientists who are organized into the following functional groups: IC Design, Software engineering, Systems Engineering and Product and Test Engineering. Software engineers constitute 40% of our engineering resources and 21% are systems engineers. This concentration of systems and software engineering reflects our system-on-a-chip focus.

We have invested and expect that we will continue to invest significant resources in research and development activities. Our research and development expenses were $215,000, $1.4 million and $4.8 million in 1997, 1998 and 1999, respectively.

MANUFACTURING

Our products require advanced semiconductor processes and packaging technologies. Within the semiconductor industry we are known as a "fabless" company, meaning that we do not fabricate the semiconductors that we design and develop, but instead rely on third parties to manufacture our products. We have established strategic technology relationships with our fab partners Toshiba and Taiwan Semiconductor Manufacturing Corporation, or TSMC. This approach allows us to concentrate our resources on product design and development where we believe we have greater competitive advantages. All of our current products are manufactured by Toshiba on an Application Specific Integrated Circuit, or ASIC, turnkey basis. Toshiba manufactures wafers, performs all assembly and test operations and is responsible for the quality and reliability testing of our products.

Our current products are manufactured by Toshiba using a standard 0.25 micron embedded DRAM process. We plan to have our future products manufactured by Toshiba and TSMC using 0.25 micron and 0.18 micron embedded DRAM and standard Complementary Metal-Oxide Semiconductor, or CMOS, processes. We intend to build some future products on a customer owned tooling, or COT, basis, directly contracting the manufacture of wafers and the assembly and testing of our products. While this COT manufacturing model adds greater responsibility and risk for our production, it provides us with the manufacturing flexibility required for future products and may reduce our manufacturing costs.

INTELLECTUAL PROPERTY

We rely on a combination of nondisclosure agreements and copyright, trademark and trade secret laws to protect the algorithms, design and architecture of our system-on-a-chip technology. We currently have three patent applications pending with the U.S. Patent and Trademark Office for protection of certain of our significant technologies, which are image scaling with keystone correction, and our DRAM based scaling engine. We intend to seek patent protection for other significant technologies that we have already developed and expect to seek patent protection for future products as necessary. Any future patents may not be granted and if granted may be invalidated, circumvented, challenged or licensed to others.

To supplement the technologies that we develop internally, we have licensed rights to use certain intellectual property held by third parties, and we may license additional technology rights in the future. We entered into a license agreement with VAutomation Incorporated pursuant to which, among other things, we licensed certain rights relating to VAutomation's soft core technology. We entered into another agreement with VAutomation pursuant to which, among other things, we sublicensed certain rights related to x86 IC core technology. That agreement terminates on November 6, 2006. We have also recently obtained a license from InFocus for the use of its proprietary automatic pixel clock phase and frequency correction technology specified in two patents held by InFocus. We acquired this technology in connection with the settlement of a claim by InFocus that we were infringing on its patents relating to this technology. We obtained this license to avoid any uncertainty which this claim might create for our customers and our business. The license gives us the right to use this technology without payment of royalty in our products. If any of these agreements terminate, we would be required to exclude the licensed technology from our existing and future product lines.

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. We have certain indemnification obligations with respect to the infringement of third party intellectual property rights. There is no intellectual property litigation

currently pending against us. However, we may from time to time receive notifications of claims that we may be infringing patents or other intellectual property rights owned by third parties. If it is necessary or desirable, we may seek licenses under those patents or intellectual property rights. However, we cannot be sure that licenses will be offered or that the terms of any offered licenses will be acceptable to us.

COMPETITION

In general, the market for ICs is intensely competitive. Our market is characterized by rapid technological change, evolving industry standards, compressed product life cycles and declining average selling prices. We believe the principle factors impacting competition in our markets are levels of product integration, functional versatility provided by software, compliance with industry standards, time to market, cost, product performance, system design costs, intellectual property, customer relationships and reputation.

Our current products face competition from specialized display controller developers and in-house display control solutions designed by our customers and potential customers. Additionally, new, alternative display processing technologies and industry standards may emerge that directly compete with technologies that we offer.

We compete with specialized and diversified electronics and semiconductor companies that offer display processors or scaler components. Some of these include Genesis Microchip, Macronix, Sage, Silicon Image, SmartASIC, STMicroelectronics and Trident Microsystems.

Potential competitors may include diversified semiconductor manufacturers including Broadcom Corporation, National Semiconductor and Texas Instruments. In addition, start-up companies may seek to compete in our markets.

EMPLOYEES

As of February 15, 2000, we had a total of 85 employees--36 in engineering, 36 in sales and marketing, 5 in operations and 8 in finance and administration. Of these employees, 83 are in the United States. None of our employees are represented by a collective bargaining agreement, nor have we experienced any work stoppage. We consider our relationship with our employees to be good. We depend on the continued service of our key technical, sales and senior management personnel and our ability to attract and retain additional qualified personnel. If we are unable to hire and retain qualified personnel in the future, our business could be seriously harmed.

FACILITIES

Our 23,400 square foot headquarters located in Tualatin, Oregon includes our engineering, marketing and administrative facilities. We have leased this space through May 2004.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information regarding our directors and executive officers, as of February 24, 2000:

NAME	AGE	POSITION
Allen H. Alley	45	Chairman, President and Chief Executive Officer
Hans H. Olsen	51	Vice President, Operations
Michael G. West	42	Vice President, Technology
Robert Y. Greenberg	38	Vice President, Product Development and Customer Support
Bradley A. Zenger	38	Vice President, Marketing
Michael E. Barton	55	Vice President, Sales
Jeffrey B. Bouchard	38	Vice President, Finance and Chief Financial Officer
Oliver D. Curme	46	Director
Mark A. Stevens	39	Director
Frank Gill	56	Director

ALLEN H. ALLEY co-founded our company and has served as our President, Chief Executive Officer and Chairman since our inception. From 1992 to 1996, Mr. Alley served as the Vice President, Corporate Development, Engineering and Product Marketing for In Focus Systems, a leading electronic display company. While at InFocus, Mr. Alley also was the co-CEO of a joint venture with Motorola, Inc. called Motif. From 1986 to 1992, Mr. Alley was a General Partner of Battery Ventures, a venture capital investment firm. From 1983 to 1986, Mr. Alley was the Director of Mechanical Computer Aided Engineering of Computervision Corporation, a computer-aided design software developer. From 1979 to 1983, Mr. Alley was a Lead Mechanical Engineer at Boeing Commercial Airplane Division. From 1976 to 1979, Mr. Alley served as a Product Design Engineer for the Ford Motor Company. Mr. Alley holds a B.S. in Mechanical Engineering from Purdue University.

HANS H. OLSEN has served as Vice President, Operations since joining us in July 1998. From 1997 to 1998, Mr. Olsen held the positions of Vice President, Graphics Marketing and Vice President, North American Sales at Trident Microsystems, a graphics controller semiconductor company. From 1996 to 1997, Mr. Olsen served as Vice President Marketing at Paradigm Technology, Inc. which acquired IChips Corporation, a personal computer chipset and embedded memory technology provider, that he founded and was CEO of from 1993 to 1996. From 1982 to 1993, Mr. Olsen held the position of CEO of Electronic Designs, Inc., a semiconductor memory company he co-founded. From 1973 to 1982, Mr. Olsen held engineering and management positions at Christian Rovsing A/S in Copenhagen, Denmark. Mr. Olsen holds a B.S.E.E. from Copenhagen Technical University and a M.S.E.E. from the University of Copenhagen.

MICHAEL G. WEST co-founded our company and has served as our Vice President, Technology since our inception. From 1988 to 1996, Mr. West led the integrated circuit engineering efforts on advanced display products at InFocus Systems where he served as Chief Scientist and in other senior engineering capacities. From 1986 to 1987, Mr. West led design for a VLSI design of a full-custom bipolar integrated circuit and a microsequencer as an Integrated Circuit Design Engineer for Bipolar Integrated Technology, a semiconductor developer and manufacturer. From 1982 to 1986, Mr. West held integrated circuit design positions, including leading system architecture development for a VLIW super computer at Floating Point Systems, a super-computer company. Mr. West holds a B.S. in Electronic Engineering and a B.S. in Mathematics from Oregon State University and a M.S.E.E. from the University of Illinois.

ROBERT Y. GREENBERG co-founded our company and has served as our Vice President, Product Development and Customer Support since our inception. From 1988 to 1996, Mr. Greenberg designed

system architectures, high-speed board-level hardware, integrated circuits and simulation and embedded system software for InFocus Systems. From 1987 to 1988, Mr. Greenberg developed a high-speed CMOS application specific integrated circuit verification system for Integrated Measurement Systems, Inc., a

manufacturer of performance engineering test stations. Mr. Greenberg has also held electrical engineering positions at Floating Point Systems, Inc. and Sperry Corporation. Mr. Greenberg holds a B.S.E.E. and a B.S.C.E. from the University of Michigan.

BRADLEY A. ZENGER co-founded our company and has served as our Vice President, Marketing since our inception. From 1995 to 1996, Mr. Zenger served as the Director, Marketing Services at In Focus Systems where he developed and implemented worldwide demand creation programs. He also held management-level marketing positions at InFocus Systems from 1992 to 1995. From 1989 to 1992, Mr. Zenger was a Technical Support Manager (1990 to 1992) and held supervisory positions (1989 to 1991) at KLA Instruments, a semiconductor manufacturing equipment manufacturer, where he led installations and product support. From 1984 to 1989, Mr. Zenger served as a decorated officer in the U.S. Navy on-board a nuclear attack submarine. Mr. Zenger holds a B.S. in Mechanical Engineering from the University of Notre Dame and an M.B.A. from Santa Clara University.

MICHAEL E. BARTON has served as Vice President, Sales since January 1999. From 1996 to 1998, Mr. Barton was the Senior Vice President of Sales at Evergreen Technologies, Inc., a PC processor subsystem manufacturer. From 1991 to 1996, Mr. Barton served as Vice President of Sales, Americas of Cyrix Corporation, a microprocessor semiconductor company. From 1975 to 1991, Mr. Barton was employed at Intel Corporation, holding senior sales management positions including Worldwide Sales Manager, Automotive and Corporate Major Accounts Manager.

JEFFREY B. BOUCHARD has served as Vice President, Finance and Chief Financial Officer since December 1999. During 1999, Mr. Bouchard served as Chief Financial Officer at eVineyard, a start-up online retailer of premium wines. From 1993 to 1999, Mr. Bouchard held senior financial management positions at InFocus Systems, including Director of Investor Relations and Treasury (1998 to 1999) and Director of Finance (1995 to 1998) where he was responsible for the company's financial management and planning. From 1988 to 1992, Mr. Bouchard held a variety of senior financial positions including Worldwide Operations Financial Planning and Analysis Manager at Sun Microsystems, an enterprise network computing company. Prior to joining Sun Microsystems, Mr. Bouchard held finance and accounting positions at several high-technology companies from 1983 to 1988. Mr. Bouchard holds a B.S. in Business Administration--Finance from San Jose State University and an M.B.A. from Santa Clara University.

OLIVER D. CURME has served as a director of our company since April 1997. Since 1988, Mr. Curme has been a General Partner of funds related to Battery Ventures, a venture capital firm located in Wellesley, Massachusetts. Mr. Curme sits on the board of directors of Chordiant Software, Inc. and several privately held companies. Mr. Curme holds a B.S. in Biochemistry from Brown University and an M.B.A. from Harvard Graduate School of Business Administration.

MARK A. STEVENS has served as a director of our Company since April 1998. Since 1993, Mr. Stevens has been a General Partner of Sequoia Capital, a venture capital investment firm. From 1989 to 1993, Mr. Stevens was an Associate with Sequoia Capital. From 1982 to 1987, Mr. Stevens held technical sales and marketing positions at Intel Corporation. Mr. Stevens currently serves on the Board of Directors of NVIDIA, Corp., a 3D graphics processor semiconductor company, Terayon Communications Systems, Inc., MedicaLogic, Inc., an Internet healthcare information company, MP3.com, Inc., an online music service provider, Medibuy.com, a business-to-business exchange for healthcare supplies procurment, and several privately held companies. Mr. Stevens holds a B.S.E.E. degree, a B.A. degree in Economics, an M.S. degree in Computer Engineering from the University of Southern California and an M.B.A. degree from Harvard Business School.

FRANK GILL has served as a director of our company since December 1998. From 1975 to 1998, Mr. Gill was employed at Intel Corporation in a variety of sales, marketing, product development and manufacturing positions and retired from Intel as an Executive Vice President. In 1989, he served as the Senior Vice President in charge of worldwide sales and marketing operations and became General Manager of the Intel Systems Group in 1990 and the Internet and Communications Group in 1995. Mr. Gill serves as a director of Inktomi Corporation, McAfee.com Corporation, Tektronix, Inc., Logitech International S.A. and Telecom Semi, Inc. Mr. Gill holds a B.S.E.E. degree from the University of California at Davis.

BOARD OF DIRECTORS

We currently have four directors. Our directors hold office until the next annual meeting of shareholders or until their successor are duly elected or appointed. Pursuant to the Company's Fourth Amended and Restated Articles of Incorporation, one director has been elected by the holders of our shares of common stock, one director has been elected by the holders of our Series A preferred shares, one director has been elected by the holders of our Series B preferred shares and one director has been elected by the holders of our shares of common stock, Series A preferred shares, Series B preferred shares and Series C preferred shares, each voting separately. Following the effective date of our initial public offering, there will no longer be class voting in the election of directors. Our Fifth Amended and Restated Articles of Incorporation provide that if the number of directors is fixed at six or more, our directors will be divided into three classes and, after a transitional period, will serve for terms of three years, with one class being elected by the shareholders each year.

BOARD COMMITTEES

The compensation committee currently consists of Messrs. Curme, Stevens and Gill. The compensation committee reviews and makes recommendations regarding our compensation policies and all forms of compensation to be provided to our executive officers and directors, including annual salaries, bonuses, stock options and other incentive compensation agreements. The compensation committee also administers our 1997 stock incentive plan and our 2000 employee stock purchase plan.

The audit committee currently consists of Messrs. Curme, Stevens and Gill. The audit committee reviews and monitors our corporate financial reporting and external audits, including our internal control functions, the results and scope of the annual audit and other services provided by our independent auditors and our compliance with legal matters that have a significant impact on our financial reports. The audit committee also consults with our management and our independent auditors prior to the presentation of financial statements to shareholders and, as appropriate, initiates inquiries into aspects of our financial affairs.

DIRECTOR COMPENSATION

Our non-employee directors currently receive no compensation for service on our board of directors.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the members of the compensation committee is currently, or has been at any time since the beginning of our last fiscal year, one of our officers or employees. During the fiscal year ended December 31, 1999, no executive officer of our company served as a member of the board of directors or compensation committee of any entity that has one or more officers serving as a member of our board of directors or compensation committee.

EXECUTIVE OFFICERS

Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no family relationships among our directors or officers.

COMPENSATION OF EXECUTIVE OFFICERS

SUMMARY COMPENSATION TABLE

The following table sets forth compensation awarded to, earned by, or paid to our Chief Executive Officer and the other five most highly compensated executive officers, each of whose total cash compensation exceeded $100,000 during the year ended December 31, 1999 (the "named executives"):

		ANNUAL COMPENSATION		STOCK OPTIONS	ALL OTHER
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	GRANTED(#)	COMPENSATION
---	---	---	---	---	---

Allen H. Alley President and Chief Executive Officer.....	1999	$160,714	$40,000	22,500	--
Hans H. Olsen Vice President, Operations.....	1999	133,429	45,000	--	$134,441(1)
Robert Y. Greenberg Vice President, Product Development.....	1999	118,899	30,000	10,000	--
Michael G. West Vice President, Technology.....	1999	118,899	30,000	10,000	--
Bradley A. Zenger Vice President, Marketing.....	1999	118,928	30,000	10,000	--
Michael E. Barton Vice President, Sales.....	1999	120,248	40,000	--	--

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(1) Represents the difference between the fair market value and the purchase price of 203,958 shares of common stock purchased pursuant to a restricted stock purchase award under our 1997 stock incentive plan.

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information with respect to options granted during the year ended December 31, 1999 to the named executives:

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(2)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1999	EXERCISE PRICE PER SHARE	EXPIRATION DATE	5%	10%
Allen H. Alley.....	22,500	1.5%	$.385	01/20/09	$5,448	$13,806
Hans H. Olsen.....	--	--	--	--	--	--
Robert Y. Greenberg.....	10,000	.7	.35	01/20/09	2,201	5,578
Michael G. West.....	10,000	.7	.35	01/20/09	2,201	5,578
Bradley A. Zenger.....	10,000	.7	.35	01/20/09	2,201	5,578
Michael E. Barton.....	--	--	--	--	--	--

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(1) Options granted in 1999 became exercisable starting 12 months after the grant date, with one-fourth of the options becoming exercisable at that time and with an additional 1/36th of the options becoming exercisable on each of the next thirty-six months thereafter.

(2) In accordance with the rules of the SEC, the above shows the potential realizable value over the term of the option (the period from the grant date to the expiration date) based on assumed rates of share price appreciation of 5% and 10%, compounded annually. These amounts do not represent our estimate of future share price. Actual gains, if any, on option exercises will depend on the future performance of our shares of common stock.

OPTIONS EXERCISED IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES

The following table sets forth information for our named executives relating to the number and value of securities underlying exercisable and unexercisable options held at December 31, 1999.

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1999	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1999(2)

	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED(1)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Allen H. Alley.....	--	--	0	22,500	--	
Hans H. Olsen.....	46,042	$42,359	--	--	--	--
Robert Y. Greenberg....	--	--	0	10,000		
Michael G. West.....	--	--	0	10,000		
Bradley A. Zenger.....	--	--	0	10,000		
Michael E. Barton.....	--	--	42,500	127,500		

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(1) The value realized is based on the difference between the market price at the time of exercise of the options and the applicable exercise price.

(2) The value of unexercised in-the-money options represents the difference between the fair market value of the underlying shares of common stock using an assumed initial public offering price of $ per share and the exercise price of the option, multiplied by the number of shares underlying the option.

EMPLOYMENT AGREEMENTS

We entered into an employment agreement with Jeffrey B. Bouchard on December 12, 1999, the date he became our Vice President, Finance and Chief Financial Officer. In consideration for his services we agreed to pay Mr. Bouchard an annual salary of $140,000, plus our standard employee benefits, and granted him 150,000 options under our incentive stock option plan. If he is terminated without cause, which is defined as termination for other than committing a criminal, fraudulent or grossly negligent act, misappropriation of our assets or willful failure to perform his duties, then he is entitled to severance pay of three months salary. If we substantially sell all of our assets or are merged into another company which our shareholders do not control, then under his stock option grant, Mr. Bouchard is entitled to his options which have already vested as well as an automatic vesting of the options he would have been entitled to receive over the twelve months following such merger or sale. As a condition of his employment, Mr. Bouchard entered into our standard employee nondisclosure and developments agreement pursuant to which he may not divulge any of our proprietary information other than as permitted as part of his employment with us.

EMPLOYEE BENEFIT PLANS

1997 STOCK INCENTIVE PLAN

Our 1997 Stock Incentive Plan, the 1997 Plan, which was approved by our shareholders on January 16, 1997, provides for grants of both "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") and "nonqualified stock options" which are not qualified for treatment under Section 422 of the Code, and for direct stock grants and sales to employees or consultants of the Company. The purposes of the 1997 Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to our employees and consultants and to promote the success of our business. The 1997 Plan is administered by the compensation committee of the board of directors.

The term of each incentive option granted under the 1997 Plan will generally be ten years from the date of grant, or such shorter period as may be established at the time of the grant. An option granted under the 1997 Plan may be exercised at such times and under such conditions as determined by the compensation committee. If a person who has been granted an incentive stock option ceases to be employed by or on a consulting basis with us, such person may exercise that option only during the exercise period established by the compensation committee at the time the options were granted, which shall not exceed 90 days after the date of termination, and only to the extent that the option was exercisable on the date of termination. Nonqualified stock options may be exercised during a period determined by the compensation committee. If a person who has been granted an option ceases to be an employee or consultant as a result of such person's total and permanent disability, such person may exercise that option at any time within twelve months after the date of termination, but only to the extent that the option was exercisable on the date of termination. No option granted under the 1997 Plan is transferable other than at death, and each option is exercisable during the life of the optionee only by the optionee. In the event of the death of a person who has received an option,

the option generally may be exercised by a person who acquired the option by bequest or inheritance during the twelve month period after the date of death to the extent that such option was exercisable at the date of death.

The exercise price of incentive stock options granted under the 1997 Plan may not be less than the fair market value of a share of common stock on the last market trading day prior to the date of grant of the option. Nonqualified stock options may not be granted for less than 85% of fair market value and options granted to greater than 10% shareholders may not be granted for less than 110% of fair market value. The consideration to be paid upon exercise of an option, including the method of payment, will be determined by the compensation committee and may consist entirely of cash, check,

shares of common stock or any combination of such methods of payment as permitted by the compensation committee.

The 1997 Plan will continue in effect until January 16, 2007, unless earlier terminated by the board of directors, but such termination will not affect the terms of any options outstanding at that time. The Board of Directors may amend, terminate or suspend the 1997 Plan at any time, provided that no amendment regarding amount, price or timing of the grants may be made more than once every six months other than to conform with changes in certain Internal Revenue Code requirements. Amendments that would materially increase the number of shares that may be issued, materially modify the requirements as to eligibility for Plan participation, or materially increase the benefits to Plan participants must be approved by our shareholders.

From the end of the prior year through February 24, 2000, options to purchase 139,000 shares of common stock were granted to our employees under the 1997 Plan at an exercise price of $6.00 per share. None of our named executives were granted options under the 1997 Plan since the end of the last fiscal year.

2000 EMPLOYEE STOCK PURCHASE PLAN

Our 2000 Employee Stock Purchase Plan, the 2000 Plan, was adopted by the board in February 2000 and will be submitted to our shareholders for their approval prior to the date of this offering, to become effective on the date of this offering. A total of 1,000,000 of our shares of common stock have been reserved for issuance under the 2000 Plan. Beginning in 2005 the number of shares reserved for issuance under the 2000 Plan will be increased annually by the lesser of the number of shares issued under the plan during the preceding year, 2% of the outstanding shares of common stock on the first day of our fiscal year in which the increase is being made or a lesser amount determined by the board of directors.

The board of directors or a committee appointed by the board of directors will administer the 2000 Plan and will have full and exclusive authority to interpret the terms of the plan and determine eligibility.

The 2000 Plan contains 24 month offering periods, with each offering period being divided into four six-month purchase periods. The offering periods generally start on the first trading day on or after February 1 and August 1 of each year, except for the first offering period, which commences on the date of this offering and ends on the last trading day on or before July 31, 2000.

Employees are eligible to participate in our 2000 Plan if they are customarily employed by us or any participating subsidiary for at least 20 hours per week and more than five months in any calendar year, although any employee who could own shares representing 5% or more of the total combined voting power or value of all classes of our capital shares may not participate in the plan. In addition, no employee of ours may be granted an option to purchase shares under the plan if that person's right to purchase shares under all of our employee stock purchase plans accrues at a rate that exceeds $25,000 worth of shares for each calendar year. Furthermore, no employee is permitted to purchase more than 2,500 shares during a six month purchase period. The 2000 Plan permits participants to purchase shares of common stock through payroll deductions in 1% increments not less than 2% or greater than 10% of the participant's compensation, which includes the participant's base straight time gross earnings and commissions, but excludes payments for overtime, profit sharing payments, shift premium payments, incentive compensation, incentive payments and bonuses.

Amounts deducted and accumulated under the 2000 Plan are used to purchase

shares of common stock at the end of each six-month purchase period. The price of shares purchased under the plan is 85% of the lower of the fair market value of the shares of common stock at the beginning of the offering period or after a purchase period ends. If the offering period commences on the date of this offering, the price of the shares purchased shall be the lower of 85% the price to the public of the

shares offered in this offering or 85% of the fair market value of the shares of common stock after the purchase period ends. In the event the fair market value at the end of a purchase period is less than the fair market value at the beginning of the offering period, participants will be withdrawn from the current offering period following their purchase of shares on the purchase date and will be automatically re-enrolled in a new offering period. In addition, in the event the fair market value at the end of a purchase period is less than the fair market value at the beginning of the offering period, a participant is limited to purchasing no more than 200% of the number of shares that the participant would have purchased at 85% of the fair market value at the beginning of the offering period. Participants may end their participation at any time during an offering period and will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with us. Rights granted under the 2000 Plan are not transferable by a participant other than by will, the laws of descent and distribution, or as otherwise provided under the plan.

The 2000 Plan provides that, in the event that we merge with or into another corporation or sell substantially all of our assets, each outstanding right to purchase shares under the plan during the offering period then in progress may be assumed or substituted for by the successor corporation. If the successor corporation refuses such assumption or substitution, the offering period then in progress will be shortened and a new purchase date will be set at or prior to the closing of that transaction after which time the 2000 Plan will terminate.

The 2000 Plan will terminate in February 2010. The board has the authority to amend or terminate the plan, except that no such action may adversely affect any outstanding rights to purchase shares under the plan.

INDEMNIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS AND LIMITATION OF LIABILITY

As an Oregon corporation, we are subject to the Oregon Business Corporation Act ("OBCA") and the exculpation from liability and indemnification provisions contained therein. Pursuant to Section 60.047(2)(d) of the OBCA, Article IV of our Second Restated Articles of Incorporation (the "Restated Articles") eliminates the liability of our directors to us or our shareholders, except for any liability related to breach of the duty of loyalty, actions not in good faith and certain other liabilities.

Section 60.387 et seq. of the OBCA allows corporations to indemnify their directors and officers against liability where the director or officer has acted in good faith and with a reasonable belief that actions taken were in the best interests of the corporation or at least not adverse to the corporation's best interests and, if in a criminal proceeding, the individual had no reasonable cause to believe the conduct in question was unlawful. Under the OBCA, corporations may not indemnify against liability in connection with a claim by or in the right of the corporation but may indemnify against the reasonable expenses associated with such claims. Corporations may not indemnify against breaches of the duty of loyalty. The OBCA provides for mandatory indemnification of directors against all reasonable expenses incurred in the successful defense of any claim made or threatened whether or not such claim was by or in the right of the corporation. Finally, a court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances whether or not the director or officer met the good faith and reasonable belief standards of conduct set out in the statute. Article IV of the Restated Articles requires us to indemnify our directors and officers to the fullest extent not prohibited by law.

The OBCA also provides that the statutory indemnification provisions are not deemed exclusive of any other rights to which directors or officers may be entitled under a corporation's articles of incorporation or bylaws, any agreement, general or specific action of the board of directors, vote of shareholders or otherwise.

We also have entered into indemnity agreements with each of our executive

officers and each member of our Board of Directors. These indemnity agreements provide for indemnification of the indemnitee to the fullest extent allowed by law.

CERTAIN TRANSACTIONS

COMPANY FORMATION

On January 16, 1997, in connection with our formation, we issued 1,699,920 shares of common stock to Allen H. Alley, our President and Chief Executive Officer, 950,040 shares of common stock to Robert Y. Greenberg, our Vice President, Product Development and Customer Support, 950,040 shares of common stock to Michael G. West, our Vice President, Technology and 750,000 shares of common stock to Bradley A. Zenger, our Vice President, Marketing, in each case at a purchase price of $0.002 per share.

SERIES A PREFERRED FINANCING

On April 25, 1997, we raised approximately $1,250,000 through the sale of Series A Preferred Stock and Common Stock Purchase Warrants which entitled the holders to acquire shares of our common stock at $1.012 per share. Battery Ventures received 2,325,581 Series A preferred shares and warrants to purchase 988,372 common shares and Enterprise Development Fund received 581,395 Series A preferred shares and warrants to purchase 247,093 common shares. Oliver D. Curme, one of our directors, is affiliated with Battery Ventures.

SERIES B PREFERRED FINANCING

On April 29, 1998, we raised approximately $6,600,000 through the sale of 5,500,005 shares of our Series B preferred stock. Battery Ventures purchased 1,833,345 shares, Enterprise Development Fund purchased 458,335 shares and Sequoia Capital purchased 3,095,825 shares. Oliver D. Curme, one of our directors, is affiliated with Battery Ventures and Mark A. Stevens, another of our directors, is affiliated with Sequoia Capital.

GILL OPTION

On December 17, 1998, Frank Gill, one of our directors, was awarded an option to purchase 50,000 shares of our common stock at an exercise price of $.25 per share. This option vests over four years, with 25% vesting on the first anniversary of the grant and 1/36th of the remainder vesting at the end of each of the following 36 months.

EXERCISE OF COMMON STOCK PURCHASE WARRANTS

In April 1999, Battery Ventures and Enterprise Development Fund fully exercised the Common Stock Purchase Warrants acquired in connection with our Series A financing. Battery Ventures acquired 988,372 common shares at a price of $1.012 per share and Enterprise Development Fund acquired 247,093 common shares at a price of $1.012 per share. Oliver D. Curme, one of our directors, is affiliated with Battery Ventures.

SERIES C PREFERRED FINANCING

On May 28, 1999, we raised approximately $11,667,000 through the sale of 2,493,026 shares of our Series C Preferred Stock. Battery Ventures purchased 750,000 shares, Enterprise Development Fund purchased 32,000 shares and Sequoia Capital purchased 1,070,000 shares. Oliver D. Curme, one of our directors, is affiliated with Battery Ventures and Mark A. Stevens, another of our directors, is affiliated with Sequoia Capital.

TRANSACTIONS WITH HANS H. OLSEN

On August 31, 1999, Hans H. Olsen, our Vice President of Operations exercised stock options to acquire 46,042 shares of our common stock at an aggregate exercise price of $11,511 and agreed to

cancel options to acquire 123,958 shares of common stock at $.25 per share, options to acquire 30,000 shares of common stock at $.49 per share and options to acquire 50,000 shares of common stock at $1.17 per share. On the same date, pursuant to restricted stock awards, Mr. Olsen purchased 123,958 shares of

common stock at $.25 per share, 30,000 shares of common stock at $.49 per share and 50,000 shares of common stock at $1.17 per share. Mr. Olsen paid the aggregate exercise price for the options exercised and the aggregate purchase price for the additional shares purchased, $115,700, by delivering to us a promissory note. In addition, we advanced Mr. Olsen an additional $82,826 under the note to cover any tax liability arising from his purchase of shares pursuant to his restricted stock award. The note bears interest at an annual rate of 6.02% payable annually. The principal amount of the note must be repaid on the earlier of August 31, 2008 or termination of Mr. Olsen's employment voluntary or for cause. Upon termination of Mr. Olsen's employment we have the right to re-purchase any of these shares which are unvested for an amount equal to the price paid. Of the 203,958 restricted shares purchased by Mr. Olsen, 183,748 remain unvested as of January 31, 2000.

PRINCIPAL SHAREHOLDERS

The following table sets forth information known to us with respect to the beneficial ownership of our shares of common stock as of January 31, 2000 and as adjusted to reflect the sale of shares of common stock offered in this prospectus by:

- each shareholder known by us to own beneficially more than 5% of our shares of common stock, as explained below;
- each of named executives;
- each of our directors; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, the shares of common stock subject to options held by that person that are currently exercisable or will become exercisable within 60 days after January 31, 2000, are deemed outstanding, while the shares are not deemed outstanding for purposes of computing percentage ownership of any other person.

Unless otherwise indicated below, the address for each shareholder on this table is c/o Pixelworks, Inc., 7700 SW Mohawk, Tualatin, Oregon 97062. Unless otherwise indicated below, the persons and entities named in the table have sole voting or investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

The percentage of shares beneficially owned are based on:

- 19,736,035 shares of common stock outstanding as of February 24, 2000, assuming the automatic conversion of all outstanding preferred shares into shares of common stock immediately prior to the completion of this offering; and
- shares of common stock issued in this offering. Assumes no exercise of underwriters' over-allotment option. Percentage ownership figures after the offering do not include shares that may be purchased by each person in the offering.

BENEFICIAL OWNERS	SHARES BENEFICIALLY OWNED	PERCENT BEFORE OFFERING	PERCENT AFTER OFFERING
Battery Ventures IV, L.P.(1) ..... 20 Williams Street Wellesley, MA 02181	5,897,298	29.9%	
Sequoia Capital VII(2) ..... 3000 Sand Hill Road Building 4, Suite 280 Menlo Park, CA 94025	4,165,825	21.1	
Enterprise Development Fund II, Limited Partnership . 425 N. Main Street	1,318,823	6.7	

Ann Arbor, MI 48104		
Oliver D. Curme(3)	5,897,298	29.9
Mark A. Stevens(4)	4,165,825	21.1
Frank Gill(5)	15,625	*
Allen H. Alley(6)	1,706,483	8.6
Hans H. Olsen	250,000	1.3

BENEFICIAL OWNERS	SHARES BENEFICIALLY OWNED	PERCENT BEFORE OFFERING	PERCENT AFTER OFFERING
Robert Y. Greenberg(7)	952,957	4.8	
Michael G. West(8)	952,957	4.8	
Bradley A. Zenger(9)	752,917	3.8	
Michael E. Barton(10)	53,125	*	
Directors and Executive Officers as a group (10 persons)	14,791,303	74.5	

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* Less than one percent (1%).

(1) Includes (a) 5,812,590 shares held by Battery Ventures IV, L.P. and (b) 84,708 shares held by Battery Investment Partners IV, LLC.

(2) Includes (a) 3,223,713 shares held by Sequoia Capital VII, (b) 546,252 shares held by Sequoia Capital Franchise Fund, (c) 140,928 shares held by Sequoia Technology Partners VII, (d) 96,398 shares held by Sequoia Capital Franchise Partners, (e) 65,382 shares held by SQP 1997, (f) 56,371 shares held Sequoia International Partners and (g) 36,781 shares held by Sequoia1997 LLC.

(3) Includes (a) 5,812,590 shares held by Battery Ventures IV, L.P. and (b) 84,708 shares held by Battery Investment Partners IV, LLC. Mr. Curme is a General Partner of Battery Ventures. Mr. Curme disclaims beneficial ownership of all such shares except to the extent of his individual pecuniary interest therein.

(4) Includes (a) 3,223,713 shares held by Sequoia Capital VII, (b) 546,252 shares held by Sequoia Capital Franchise Fund, (c) 140,928 shares held by Sequoia Technology Partners VII, (d) 96,398 shares held by Sequoia Capital Franchise Partners, (e) 65,382 shares held by SQP 1997, (f) 56,371 shares held Sequoia International Partners and (g) 36,781 shares held by Sequoia1997 LLC. Mr. Stevens is a General Partner of Sequoia Capital. Mr. Stevens disclaims beneficial ownership of all such shares except to the extent of his individual pecuniary interest therein.

(5) Represents shares issuable upon the exercise of stock options held by Mr. Gill.

(6) Includes (a) 1,699,920 outstanding shares and (b) 6,563 shares issuable upon exercise of stock options held by Mr. Alley.

(7) Includes (a) 950,040 outstanding shares and (b) 2,917 shares issuable upon exercise of stock options held by Mr. Greenberg.

(8) Includes (a) 950,040 outstanding shares and (b) 2,917 shares issuable upon exercise of stock options held by Mr. West.

(9) Includes (a) 750,000 outstanding shares and (b) 2,917 shares issuable upon

exercise of stock options held by Mr. Zenger.

(10) Represents shares issuable upon the exercise of stock options held by Mr. Barton.

DESCRIPTION OF CAPITAL STOCK

GENERAL

After this offering, we will be authorized to issue up to 250,000,000 of Common stock, par value $0.001 per share, and 50,000,000 shares of Preferred stock, par value, $0.001 per share. Immediately after this offering, we estimate there will be approximately shares of common stock outstanding, shares of common stock issuable on exercise of outstanding options and no preferred shares. The weighted average exercise price of the outstanding options is $. The following description of our capital stock is not complete. You should carefully read our Fifth Amended and Restated Articles of Incorporation and First Restated Bylaws, which have been filed as exhibits to the Registration Statement, of which this Prospectus is a part. Additionally, certain provisions of Oregon law may impact our capital stock.

COMMON STOCK

Holders of common stock are entitled to receive such dividends as may from time to time be declared by our board of directors out of funds legally available for that purpose. See "Dividend Policy." Holders of common stock are entitled to one vote per share on all matters on which they are entitled to vote. They do not have any cumulative voting rights. There are no preemptive, conversion, redemption or sinking fund rights applicable to the common stock. In the event of a liquidation, dissolution or winding up of Pixelworks, holders of common stock are entitled to share equally and ratably in all assets remaining after the payment of all debts and liabilities as well as the liquidation preference of any outstanding class or series of preferred stock. The outstanding shares of common stock, including those offered through this prospectus, are fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to any series of preferred stock which we may issue in the future as described below.

PREFERRED STOCK

The board of directors has the authority, without action by the shareholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences and privileges of each series, any or all of which may be greater than the rights of the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock until the board of directors determines the specific rights of the holders of such preferred stock. However, the effects might include restricting dividends on the common stock diluting the voting power of the common stock, impairing the liquidation rights of the common stock and delaying or preventing a change in control of Pixelworks without further action by the shareholders. There are no agreements or understandings for the issuance of preferred stock, and the board of directors has no present intention of issuing any shares of preferred stock, except as contemplated by the shareholder rights plan described below.

REGISTRATION RIGHTS

Certain shareholders holding an aggregate of 18,139,219 shares are entitled to rights with respect to registration of these shares under the securities act. The rights are provided under the terms of an agreement between us and the holders of registrable securities. Beginning six months following the completion of this offering, certain holders of then outstanding registrable securities may require on up to two occasions that we register their shares for public resale. We are obligated to register these shares only if the outstanding registrable securities have an anticipated public offering price of at least $5,000,000. Also, holders of registrable securities may require, on one occasion in any 12 month period that shares for public resale on Form S-3 or similar short form registration if the value of the securities to be registered is at least $500,000. Furthermore, in the event we determine to register any of our

securities under the Securities Act of 1933, either for our own account or for

the account of other security holders exercising their registration rights, the holder of registrable securities are entitled to include their shares of common stock in the registration. The registration rights are subject to conditions and limitations, among them our right to limit the number of shares included in the registration which may reduce the number of shares proposed to be registered in view of market conditions. These registration rights are triggered by this offering, but we have obtained waivers of such rights from all holders of registrable securities in connection with the offering. All expenses in connection with any registration, other than underwriting discounts and commissions, will be borne by us. All registration rights will terminate five years following the consummation of this offering.

SHAREHOLDER RIGHTS PLAN

Prior to the consummation of the offering, our board of directors intends to adopt a shareholders rights plan and declare a dividend distribution of one preferred stock purchase right for each outstanding share of common stock. The dividend would be payable on a date expected to be approximately 10 days after the declaration of the dividend which is referred to as the record date. Each preferred stock purchase right will entitle the registered holder to purchase from us a fraction of a share of Series A junior participating preferred stock. The description and terms of the rights are set forth in a rights agreement between us and a rights agent, a copy of which will be filed as an exhibit to the registration statement of which this prospectus is a part. The following summary of the terms of the rights agreement is not complete and is qualified by reference to the rights agreement.

The rights will not be exercisable and will not trade separately from our common stock until the earlier of

- 10 days following a public announcement that a person or group of affiliated or associated persons, referred to individually or collectively as the acquiring person, has acquired beneficial ownership of 15% or more of the outstanding shares of our common stock, or

- 10 business days (or such later date as may be determined by the board of directors) following commencement of or announcement of an intention to make a tender offer or exchange offer which would result in the beneficial ownership by a person of 15% or more of the outstanding shares of our common stock.

The earlier of such dates is referred to as the distribution date.

Until the distribution date or the earlier expiration of the preferred stock purchase rights, such rights will not be separable from the common stock and will be transferred along with any transfer of that stock. As soon as practicable following the distribution date, however, a separate rights certificate evidencing the preferred stock purchase rights will be mailed to holders of record of the common stock as of the close of business on the distribution date, and such separate rights certificate alone will evidence the preferred stock purchase rights.

The preferred stock purchase rights will not be exercisable until the distribution date and will expire at the close of business on the date which is 10 years after the date of the rights agreement, unless that date is changed or the preferred stock purchase rights are earlier redeemed or exchanged by us.

In the event that any person or group of affiliated or associated persons becomes an acquiring person, proper action will be taken so that each holder of a preferred stock purchase right who exercises that right will be entitled to receive a number of shares of common stock equal in value to two times the exercise price of the right. The preferred stock purchase rights beneficially owned by the acquiring person, however, will be void and will not be exercisable. In the event that we are acquired in a merger, other business combination transaction or 50% or more of our consolidated assets or earning power is sold, proper action will be taken so that each holder of a preferred stock purchase right, other

than those voided rights held by the acquiring person, will then be entitled to receive, upon the exercise of the right, the number of shares of common stock of the acquiring company which at the time of such transaction is equal to a market value of two times the exercise price of the right.

The purchase price payable and the number of one one-hundredths of a share of preferred stock or other securities or property issuable upon exercise of the preferred stock purchase rights will be subject to customary anti-dilution provisions.

The number of outstanding preferred stock purchase rights will also be subject to adjustment in the event of a stock dividend on the common stock payable in shares of common stock or subdivisions, consolidations or combinations of the common stock occurring prior to the distribution date.

Shares of preferred stock purchasable upon exercise of the rights will not be redeemable. Each share of preferred stock will be entitled, when, as and if declared, to a minimum preferential quarterly dividend payment of the greater of (a) $ per share or (b) an amount equal to 100 times the dividend declared per share of common stock. In the event of liquidation, dissolution or winding up of Pixelworks, the holders of the preferred stock will be entitled to a minimum preferential payment of the greater of (a) $ per share (plus any accrued but unpaid dividends) or (b) an amount equal of 100 times the payment made per share of common stock. Each share of preferred stock will have 100 votes when voting together with the common stock. Finally, in the event of any merger, consolidation or other transactions in which outstanding shares of common stock are converted or exchanged, each share of preferred stock will be entitled to receive 100 times the amount received per share of common stock. These rights will be protected by customary antidilution provisions. Because of the nature of the preferred stock's dividend, liquidation and voting rights, the value of the one one-hundredth share of preferred stock purchasable upon exercise of each right should approximate the value of one share of common stock.

The rights agreement will provide that at any time after any person or group becomes an acquiring person and prior to the acquisition by such person or group of 50% or more of the outstanding shares of common stock, our board of directors may exchange the preferred stock purchase rights (other than rights owned by such person or group which have become void), in whole or in part, at an exchange ratio of one share of common stock per right, subject to adjustment.

With certain exceptions, no adjustment in the purchase price will be required until cumulative adjustments require an adjustment of at least 1% in such purchase price. No fractional shares will be issued. In lieu of a fractional share an adjustment in cash will be made based on the current market price of the preferred stock or the common stock.

In general, at any time until ten days after the date a person or group has become an acquiring person, we may redeem the preferred stock purchase rights in whole. After the redemption period has expired, our right of redemption may be reinstated if an acquiring person reduces his beneficial ownership to 10% or less of the outstanding shares of common stock in a transaction or series of transactions not involving us, provided there are no other acquiring persons. Immediately upon the action of the board of directors ordering redemption of the preferred stock purchase rights, the rights will terminate and the only right of the holders of rights will be to receive the $.01 redemption price.

The rights agreement may be amended by the board of directors in any way prior to the distribution date. After the distribution date, the provisions of the rights agreement may only be amended by the board in order to cure any ambiguity, defect or inconsistency or to make any other changes which do not adversely affect the interests of holders of preferred stock purchase rights (excluding the interests of any acquiring person).

Until a preferred stock purchase right is exercised, the holder has no rights as a shareholder of Pixelworks, including the right to vote or to receive dividends.

ANTI-TAKEOVER EFFECTS OF CERTAIN PROVISIONS OF OREGON LAW, THE RESTATED ARTICLES AND BYLAWS

Upon completion of the offering, we will become subject to the Oregon Control Share Act. The Oregon Control Share Act generally provides that a person who acquires voting stock of an Oregon corporation, in a transaction that results in the acquiror holding more than 20%, 33 1/3% or 50% of the total voting power of the corporation, cannot vote the shares its acquires in the acquisition. An acquiror is broadly defined to include companies or persons acting as a group to acquire the shares of the Oregon corporation. This

restriction does not apply if voting rights are given to the control shares by:

- a majority of each voting group entitled to vote; and

- the holders of a majority of the outstanding voting shares, excluding the control shares held by the acquiror and shares held by the company's officers and employee directors.

The acquiror may, but is not required to, submit to the target company a statement including specific information about the acquiror and its plans for the company. The statement may also request that the company call a special meeting of shareholders to determine whether the control shares will be allowed to have voting rights. If the acquiror does not request a special meeting of shareholders, the issue of voting rights of control shares will be considered at the next annual or special meeting of shareholders. If the acquiror's control shares are allowed to have voting rights and represent a majority or more of all voting power, shareholders who do not vote in favor of voting rights for the control shares will have the right to receive the appraised fair value for their shares, which may not be less than the highest price paid per share by the acquiror for the control shares.

We are also subject to the Oregon Business Combination Act. The Business Combination Act generally provides that in the event a person or entity acquires 15% or more of the voting stock of an Oregon corporation, thereby becoming an "interested shareholder," the corporation and the interested shareholder, or any affiliated entity, may not engage in certain business combination transactions for a period of three years following the date the person became an interested shareholder. Business combination transactions for this purpose include:

- a merger or plan of share exchange;

- any sale, lease, mortgage or other disposition of the assets of the corporation where the assets have an aggregate market value equal to 10% or more of the aggregate market value of the corporation's assets or outstanding capital stock; or

- certain transactions that result in the issuance of capital stock of the corporation to the interested shareholder.

These restrictions are not applicable if:

- as a result of the transaction in which a person became an interested shareholder, they will own at least 85% of the outstanding voting stock of the corporation (excluding shares owned by directors who are also officers, and certain employee benefit plans);

- the board of directors approves the share acquisition or business combination before the interested shareholder acquires 15% or more of the corporation's voting stock; or

- the board of directors and the holders of at least two-thirds of the outstanding voting stock of the corporation (excluding shares owned by the interested shareholder) approve the transaction after the interested shareholder has acquired 15% or more of the corporation's voting stock.

Our Fifth Amended and Restated Articles provide that (i) if the number of directors is fixed at six or more, our directors will be divided into three classes, each of which serves for a three-year term with one class elected each year, (ii) provide that directors may be removed by shareholders only for cause

and only upon the vote of 75% of the outstanding shares of common stock, and (iii) permit the board of directors to issue preferred stock in one or more series and to fix the number of shares constituting any such series, the voting powers and all other rights and preferences of any such series, without any further vote or action by our shareholders.

The staggered terms for directors, the provisions allowing the removal of directors only for cause and the availability of preferred stock for issuance without shareholder approval may have the effect of lengthening the time required for a person to acquire control of our company through a proxy contest or the election of a majority of the board of directors and may deter any potential unfriendly offers or other efforts to obtain control. This could deprive our shareholders of opportunities to realize a premium for their common

stock and could make removal of incumbent directors more difficult. At the same time, these provisions may have the effect of inducing any persons seeking control of our company to negotiate terms acceptable to the board of directors.

NASDAQ NATIONAL MARKET LISTING

We have applied to have our shares of common stock included for quotation on the Nasdaq National Market under the symbol "PXLW."

TRANSFER AGENT

The transfer agent and registrar for the shares of common stock is ChaseMellon Shareholder Services, LLC. ChaseMellon's telephone number for shareholder inquiries is .

SHARES ELIGIBLE FOR FUTURE SALE

We cannot provide any assurance that after this offering has been completed a significant public market for our shares of common stock will develop or be sustained. The sale of substantial numbers of our shares of common stock in the public market, or the possibility of a sale, could adversely affect prevailing market prices for our shares of common stock. Furthermore, only a limited number of our shares of common stock currently held by our shareholders will be available for sale shortly after this offering because of contractual and legal restrictions on resale described below. Future sales of substantial amounts of our shares in the public market after these restrictions lapse could adversely affect the prevailing market price and our ability to raid equity capital in the future.

Upon completion of this offering and assuming no exercise after that date of the underwriters' over-allotment option or any outstanding options, we expect to have shares of common stock outstanding based on shares outstanding as of February , 2000.

Of the shares of common stock, the shares that we expect to sell in the offering, and any shares of common stock sold upon exercise of the underwriters' over-allotment option, will be freely tradable without restriction under the securities act. However, there will be trading restrictions imposed on "affiliates" and "control persons" as defined under Rule 144. The remaining shares of common stock held by existing shareholders are restricted securities as that term is defined in Rule 144 of the securities act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 promulgated under the securities act, which rules are summarized below. As a result of the contractual restrictions described below and the provisions of Rule 144, the restricted securities will be eligible for sale in the public market immediately following the offering subject to the expiration of 180-day lock-up agreements with representatives of the underwriters and to volume limitations and other conditions under Rule 144. Following this offering, the holders of an aggregate of 18,139,219 of the outstanding shares of common stock have the right to require us to register their shares for sale upon meeting requirements to which the parties have previously agreed. See "Description of Share Capital--Registration Rights" for additional information regarding registration rights.

The following table indicates approximately when the 19,736,035 of our shares of common stock, held by existing shareholders, that are not being sold in the offering but which will be outstanding at the time the offering is complete will be eligible for sale into the public market:

ELIGIBILITY OF RESTRICTED SHARES FOR SALE IN PUBLIC MARKET	
At effective date	0
90 days after effective date	0
180 days after effective date	17,496,823
After 180 days post-effective date	2,239,212

The shares eligible for sale includes shares outstanding as of February 24, 2000 and assumes the automatic conversion of all outstanding preferred shares into shares of common stock upon completion of the offering.

LOCK-UP AGREEMENTS

Our officers, directors and all of our other shareholders have signed lock-up agreements under which they agree not to dispose of or hedge any shares of common stock or securities convertible into or exchangeable for shares of common stock for a period of 180 days from the date of this prospectus. Dispositions can be made sooner with the prior written consent of Salomon Smith Barney Inc.

OPTIONS AND WARRANTS

As of February 24, 2000, and 1,000,000 of the shares of common stock are reserved for future issuance pursuant to our 1997 stock incentive plan and 2000 employee stock purchase plan, respectively. An aggregate of shares of common stock issuable upon the exercise of the outstanding options will be vested 180 days following the date of this prospectus. We intend to file, shortly after effectiveness of this offering, a registration statement on Form S-8 under the securities act covering all shares of common stock reserved for issuance under the share plans. Substantially all of the shares of common stock issuable upon exercise of outstanding options are subject to 180-day lock-up agreements with the representatives of the underwriters.

RULE 144

In general, under Rule 144, as in effect on the date of this prospectus, any person who has beneficially owned restricted securities for at least one year will be entitled to sell in any three-month period a number of shares that does not exceed the greater of:

- 1% of the then outstanding shares of common stock which are approximately shares immediately after the offering; or

- the average weekly trading volume of our shares of common stock on the Nasdaq National Market during the four calendar weeks immediately preceding the date on which notice of the sale is filed with the SEC. Sales of restricted securities pursuant to Rule 144 are subject to certain requirements relating to manner of sale, notice and availability of current public information about us. Our affiliates must also comply with the restrictions and requirements of Rule 144, other than the one-year holding period requirement, in order to sell shares of common stock which are not restricted securities.

RULE 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our "affiliates" at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, generally including the holding period of any prior owner other than an "affiliate," is entitled to sell those shares without complying with the manner of sale, notice filing, volume limitation or notice provisions of Rule 144(k). Therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of this offering.

RULE 701

Subject to certain limitations on the aggregate offering price of a transaction and other conditions, Rule 701 may be relied upon with respect to the resale of securities originally purchased from us by employees, directors, officers, consultants or advisers prior to the date we become subject to the reporting requirements of the securities exchange act, pursuant to written compensatory benefit plans or written contracts relating to the compensation of such persons. In addition, the SEC has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the exchange act, along with the shares acquired upon exercise of such options. Securities issued in reliance on Rule 701 are restricted securities and, subject to the contractual restrictions described above, beginning 90 days after the date of this prospectus, such securities may be sold.

- by persons other than our affiliates, subject only to the manner of sale provisions of Rule 144; and

- by our affiliates under Rule 144 without compliance with its one-year minimum holding period requirements.

UNDERWRITING

Subject to the terms and conditions stated in the underwriting agreement dated the date hereof, each of the underwriters named below has severally agreed to purchase, and we have agreed to sell to the underwriters, the respective number of shares of common stock set forth opposite the name of each underwriter below:

NAME	NUMBER OF COMMON SHARES
Salomon Smith Barney Inc.	
Deutsche Bank Securities Inc.	
SG Cowen Securities Corporation	
E*OFFERING Corp.	
Total	

The underwriting agreement provides that the obligations of the several underwriters to purchase the shares of common stock included in this offering are subject to the approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all of the shares of common stock offered hereby other than those covered by the over-allotment option described below if they purchase any of the shares of common stock.

The underwriters, for whom Salomon Smith Barney Inc., Deutsche Bank Securities Inc., SG Cowen Securities Corporation and E*OFFERING Corp. are acting as representatives, initially propose to offer some of the shares of common stock directly to the public at the public offering price set forth on the cover page of this prospectus and some of the shares of common stock to various securities dealers at the public offering price less a concession not exceeding $ per common share. The underwriters may allow, and these dealers may reallow, a concession not exceeding $ per common share to certain brokers and dealers. After the initial offering of the shares of common stock to the public, the public offering price and other selling terms may from time to time be varied by the representatives. The representatives have advised us that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

We have granted the underwriters an option, exercisable for 30 days after the date of this prospectus, to purchase up to an aggregate of additional shares of common stock at the public offering price less the underwriting discount. The underwriters may exercise this option solely to cover over-allotments, if any, in connection with this offering. To the extent that the underwriters exercise this option, each of them will be obligated, subject to certain conditions, to purchase a number of additional shares approximately proportionate to the underwriters' initial commitment.

Pixelworks, each of our officers and directors and our other shareholders have agreed with the representatives that, for a period of 180 days after the date of this prospectus, they will not, without the prior written consent of Salomon Smith Barney Inc. dispose of or hedge any shares of common stock or any of our securities convertible into or exchangeable for shares of common stock other than, in the case of Pixelworks, shares pursuant to any employee stock option plan, stock ownership plan or dividend reinvestment plan of Pixelworks in effect at the time the underwriting agreement is signed and common stock issuable upon the conversion of securities or the exercise of warrants outstanding at the time the underwriting agreement is signed, and in the case of the officers, directors and shareholders, shares of common stock disposed of as bona fide gifts approved by Salomon Smith Barney Inc. Salomon Smith Barney Inc. in its sole discretion may release any of the securities subject to the lock-up agreements at any time without notice. The release of any lock-up is considered on a case by case basis. Factors in deciding whether to release shares may include the length of time before the lock-up expires, the trading price of the common stock and whether the person seeking the release is an officer, director or affiliate of Pixelworks. Salomon Smith Barney Inc. has no current intention to release shares subject to the lock-up agreements.

The underwriters have reserved for sale, at the initial public offering price, up to shares of common stock for customers, directors, employees and other persons associated with us who have expressed an interest in purchasing shares of common stock in the offering. The number of shares available for sale to the general public in the offering will be reduced to the extent these persons purchase these reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

Prior to this offering, there has been no public market for the shares of common stock. Consequently, the initial public offering price for the shares of common stock was determined by negotiations between us and the representatives. Among the factors considered in determining the initial public offering price were our record of operations, our current financial condition, our future prospects, our markets, the economic conditions in and future prospects for the industry in which we compete, our management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly traded companies considered comparable to us. We cannot assure you, however, that the prices at which the shares will sell in the public market after this offering will not be lower than the price at which they are sold by the underwriters or that an active trading market in the shares of common stock will develop and continue after the offering.

We have applied to have our shares of common stock included for quotation on the Nasdaq Stock Market's National Market under the symbol "PXLW."

The following table shows the underwriting discounts and commissions to be paid to the underwriters by us in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of common stock.

	PAID BY PIXELWORKS	
	NO EXERCISE	FULL EXERCISE
Per share		
Total		

The expense of the offering, exclusive of the underwriting discounts and commissions, are estimated to be $900,000 and are payable entirely by us.

In connection with the offering, Salomon Smith Barney Inc. on behalf of the underwriters, may over-allot, or engage in syndicate covering transactions, stabilizing transactions and penalty bids. Over-allotment involves syndicate sales of shares of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the shares of common stock in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of shares of common stock made for the purpose of preventing or retarding a decline in the market price of the shares of common stock while the offering is in progress. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Salomon Smith Barney Inc., in covering syndicate short positions or making stabilizing purchases, repurchases shares originally sold by that syndicate member. These activities may cause the price of the shares of common stock to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected on the Nasdaq National Market or in the over-the-counter market, or otherwise and, if commenced, may be discontinued at any time.

The prospectus may be used by underwriters and dealers in connection with offers and sales of the shares of common stock, including shares of common stock initially sold outside the United States, to persons located in the United States.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the securities act, or to contribute to

payments the underwriters may be required to make with respect to any of those liabilities.

LEGAL MATTERS

The validity of the shares of common stock offered hereby and certain other legal matters relating to the offering are being passed upon for us by Ater Wynne LLP, Portland, Oregon. Certain legal matters relating to the offering are being passed upon for the underwriters by Brown & Wood LLP, San Francisco, California. Brown & Wood LLP may rely on Ater Wynne LLP as to matters of Oregon law.

EXPERTS

The financial statements of Pixelworks, Inc. as of December 31, 1998 and 1999, and for the period from January 16, 1997 (date of inception) through December 31, 1997 and for each of the years in the two-year period ended December 31, 1999, have been included in this prospectus and elsewhere in the registration statement in reliance upon the report of KPMG LLP, independent auditors, appearing elsewhere herein and upon the authority of KPMG LLP as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a Registration Statement on Form S-1. This Prospectus, which forms a part of the Registration Statement, does not contain all the information included in the Registration Statement. Certain information is omitted and you should refer to the Registration Statement and its exhibits. With respect to references made in this Prospectus to any of our contracts or other documents, such references are not necessarily complete and you should refer to the exhibits attached to the Registration Statement for copies of the actual contract or document. You may review a copy of the Registration Statement, including exhibits and schedules filed therewith that we have filed at the Securities and Exchange Commission's public reference facilities in Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the Securities and Exchange Commission located at 7 World Trade Center, Suite 1300, New York, New York 10048, and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may also obtain copies of such materials from the Public Reference Section of the Securities and Exchange Commission, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Securities and Exchange Commission maintains a Web site at HTTP://WWW.SEC.GOV.

PIXELWORKS, INC.
INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Pixelworks, Inc.:

We have audited the accompanying balance sheets of Pixelworks, Inc. as of December 31, 1998 and 1999, and the related statements of operations, redeemable convertible preferred stock and shareholders' equity (deficit), and cash flows for the period from January 16, 1997 (date of inception) through December 31, 1997 and for each of the years in the two-year period ended December 31, 1999. These financial statements are the responsibility of Pixelworks' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pixelworks, Inc. as of December 31, 1998 and 1999, and the results of its operations, and its cash flows for the period from January 16, 1997 (date of inception) through December 31, 1997 and for each of the years in the two-year period ended December 31, 1999 in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Portland, Oregon
January 26, 2000

PIXELWORKS, INC.

BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31,		
	1998	1999	1999 (PRO FORMA) (UNAUDITED)
ASSETS			
Current assets:			
Cash and cash equivalents	$6,119	$12,199	
Accounts receivable, net	83	2,537	
Inventories	43	1,404	
Prepaid expenses and other current assets	11	21	
Total current assets	6,256	16,161	
Property and equipment, net	1,120	1,730	
Other assets, net	300	503	
	$7,676	$18,394	
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	$ 257	$ 712	
Accrued liabilities	241	1,518	
Line of credit	1,331	669	
Current portion of long-term obligations	--	492	
Total current liabilities	1,829	3,391	
Long-term obligations, less current portion	--	591	
Other long-term liabilities	--	6	
Total liabilities	1,829	3,988	

Redeemable convertible preferred stock, $.001 par value. Authorized 10,993,031 shares; 8,406,981 shares issued and outstanding in 1998 and 10,900,007 in 1999 (liquidation preference of $19,517 at December 31, 1999)	7,755	23,701	
Commitments and contingencies			
Shareholders' equity (deficit):			
Common stock, $.001 par value. Authorized 22,000,000 shares; 5,000,000 and 6,582,877 shares issued and outstanding in 1998 and 1999, respectively, (pro forma 17,482,884)	--	--	$23,701
Warrants	71	--	--
Deferred stock compensation	--	(2,230)	(2,230)
Note receivable for common stock	--	(199)	(199)
Accumulated deficit	(1,979)	(6,866)	(6,866)
Total shareholders' equity (deficit)	(1,908)	(9,295)	$14,406
	$7,676	$18,394	

See accompanying notes to financial statements.

PIXELWORKS, INC.

STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31, 1997	YEARS ENDED DECEMBER 31, 1998	1999
Revenue:			
Product revenue, net	$ 25	$ 105	$ 12,647
Commissions	375	373	65
Licensing and development fees	--	500	100
Total revenue	400	978	12,812
Cost of revenue	24	22	8,369
Gross profit	376	956	4,443
Operating expenses:			
Research and development	215	1,446	4,805
Selling, general and administrative	590	1,314	4,366
Amortization of deferred stock compensation	--	--	565
Total operating expenses	805	2,760	9,736
Loss from operations	(429)	(1,804)	(5,293)
Interest and other:			
Interest income	14	238	519
Interest expense	--	(23)	(110)
Miscellaneous income	39	--	--
Interest and other income, net	53	215	409
Loss before income taxes	(376)	(1,589)	(4,884)
Income taxes	--	(14)	(3)
Net loss	(376)	(1,603)	(4,887)
Accretion of preferred stock redemption preference	--	(10)	(4,278)
Net loss attributable to common shareholders	$ (376)	$ (1,613)	$ (9,165)
Historical loss per share:			

Basic and diluted	$ (0.68)	$ (0.91)	$ (2.30)
Weighted average shares--basic and diluted	552,175	1,773,551	3,980,523

See accompanying notes to financial statements.

PIXELWORKS, INC.

STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK
AND SHAREHOLDERS' EQUITY (DEFICIT)

(IN THOUSANDS, EXCEPT SHARE DATA)

	REDEEMABLE CONVERTIBLE PREFERRED STOCK		COMMON STOCK			DEFERRED STOCK
	SHARES	AMOUNT	SHARES	AMOUNT	WARRANTS	COMPENSATION
Balances as of January 16, 1997	--	$ --	--	$ --	$ --	$ --
Sale of common stock	--	--	5,000,000	10	--	--
Issuance of Series A redeemable convertible preferred stock and warrants, net	2,906,976	1,145	--	--	71	--
Net loss	--	--	--	--	--	--
Balances as of December 31, 1997	2,906,976	1,145	5,000,000	10	71	--
Issuance of Series B redeemable convertible preferred stock	5,500,005	6,600	--	--	--	--
Accretion of preferred stock redemption preference	--	10	--	(10)	--	--
Net loss	--	--	--	--	--	--
Balances as of December 31, 1998	8,406,981	7,755	5,000,000	--	71	--
Issuance of Series C redeemable convertible preferred stock	2,493,026	11,668	--	--	--	--
Exercise of stock options	--	--	347,412	162	--	--
Exercise of warrants	--	--	1,235,465	1,321	(71)	--
Deferred compensation related to stock options	--	--	--	2,795	--	(2,795)
Amortization of deferred stock compensation	--	--	--	--	--	565
Accretion of preferred stock redemption preference	--	4,278	--	(4,278)	--	--
Net loss	--	--	--	--	--	--
Balances as of December 31, 1999	10,900,007	$23,701	6,582,877	$ --	$ --	$(2,230)

	NOTE RECEIVABLE FOR COMMON STOCK	ACCUMULATED DEFICIT	TOTAL SHAREHOLDERS' EQUITY (DEFICIT)
Balances as of January 16, 1997	$ --	$ --	$ --
Sale of common stock	--	--	10
Issuance of Series A redeemable convertible preferred stock and warrants, net	--	--	71
Net loss	--	(376)	(376)
Balances as of December 31, 1997	--	(376)	(295)
Issuance of Series B redeemable convertible preferred stock	--	--	--
Accretion of preferred stock redemption preference	--	--	(10)
Net loss	--	(1,603)	(1,603)
Balances as of December 31, 1998	--	(1,979)	(1,908)
Issuance of Series C redeemable convertible preferred stock	--	--	--
Exercise of stock options	(199)	--	(37)
Exercise of warrants	--	--	1,250
Deferred compensation related to stock options	--	--	--
Amortization of deferred stock compensation	--	--	565
Accretion of preferred stock redemption preference	--	--	(4,278)
Net loss	--	(4,887)	(4,887)
Balances as of December 31, 1999	$(199)	$(6,866)	$(9,295)

See accompanying notes to financial statements.

PIXELWORKS, INC.

STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) THROUGH DECEMBER 31, 1997	YEARS ENDED DECEMBER 31, 1998	1999
Cash flows from operating activities:			
Net loss	$(376)	$(1,603)	$(4,887)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	55	431	1,303
Write-off of property and equipment and other assets	--	--	74
Provision for doubtful accounts	--	10	160
Amortization of deferred stock compensation	--	--	565
Changes in operating assets and liabilities:			
Accounts receivable	(58)	(35)	(2,614)
Inventories	--	(43)	(1,361)
Prepaid expenses and other current assets	(8)	(3)	(10)
Accounts payable	77	180	455
Accrued liabilities	4	162	1,277
Other long-term liabilities	--	--	6
Net cash used in operating activities	(306)	(901)	(5,032)
Cash flows from investing activities:			
Purchase of property and equipment	(256)	(1,275)	(1,710)
Other assets	(5)	(295)	(480)
Purchase of investments	(838)	--	--
Proceeds from maturities of investments	546	292	--
Net cash used in investing activities	(553)	(1,278)	(2,190)
Cash flows from financing activities:			
Proceeds from lines of credit	--	1,331	669
Payments on long-term debt	--	--	(248)
Issuance of preferred stock and common stock warrants	1,216	6,600	11,668
Issuance of common stock	10	--	1,213
Net cash provided by financing activities	1,226	7,931	13,302
Net increase in cash and cash equivalents	367	5,752	6,080
Cash and cash equivalents at beginning of period	--	367	6,119
Cash and cash equivalents at end of period	$ 367	$ 6,119	$12,199
Supplemental disclosure of non-cash investing and financing activities:			
Accrued liabilities for the purchase of property and equipment	$ 75	$ --	$ --
Warrants issued in connection with preferred stock issuance	71	--	--
Conversion of line of credit to term note	--	--	1,331
Accretion of preferred stock redemption preference	--	10	4,278
Note receivable for issuance of common stock	--	--	199
Warrants exercised for common stock	--	--	71

See accompanying notes to financial statements.

PIXELWORKS, INC.

NOTES TO FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) NATURE OF BUSINESS

Pixelworks, Inc. (Pixelworks) designs and develops complete system-on-a-chip solutions that enable the visual display of broadband content. Pixelworks' technology interprets and optimizes video, computer graphics, and visual Web information for display on a wide variety of devices.

(b) CASH AND CASH EQUIVALENTS

Pixelworks considers all highly liquid investments having an original maturity of three months or less to be cash equivalents.

(c) ACCOUNTS RECEIVABLE

Accounts receivable is net of an allowance for doubtful accounts of $10 and $155 as of December 31, 1998 and 1999, respectively. The following table presents a rollforward of the allowance for doubtful accounts for the indicated periods:

	DECEMBER 31,	
	1998	1999
Balance as of beginning of period.....	$--	$ 10
Provision.....	10	160
Charge offs.....	--	(15)
Balance as of end of period.....	$10	$155

(d) INVENTORIES

Inventories consist of finished goods and are stated at the lower of standard cost (approximates actual cost on a first-in, first-out basis) or market (net realizable value).

(e) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. The cost of repairs and maintenance is expensed as incurred.

Depreciation on computer equipment and software, tooling and leasehold improvements is calculated on a straight-line basis over the estimated useful lives of the assets, two years for computer equipment and software and the estimated life of the product for tooling, generally two years. Amortization of leasehold improvements is recognized over the shorter of the life of the improvement or the remaining life of the lease.

As required by Statement of Financial Accounting Standards No. 121 (SFAS), ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, management reviews long-lived assets and the related intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate, to the carrying amount including associated intangible assets of the operation.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
If the operation is determined to be unable to recover the carrying amount of its assets, then intangible assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of

the assets.

(f) STOCK-BASED COMPENSATION

SFAS 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, defines a fair value based method of accounting for an employee stock option or similar instrument. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, SFAS 123 also allows an entity to continue to measure compensation cost using the intrinsic value based method of accounting prescribed by APB Opinion No. 25 (Opinion 25), ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. Entities electing to remain with the accounting in Opinion 25 must make pro forma disclosures of net income and, if presented, earnings per share, as if the fair value based method had been applied. Pixelworks has elected to continue to apply the prescribed accounting in Opinion 25 and make the required disclosures under SFAS 123.

(g) REVENUE RECOGNITION

Pixelworks recognizes revenue for both product and software sales to direct customers and commissions on third party sales upon shipment of the underlying merchandise. Revenue from product sales to distributors is recognized upon shipment if the distributor has a firm sales commitment from an end customer. A reserve for sales returns and allowances is recorded at the time of shipment. As of December 31, 1998 and 1999, the reserve for sales returns and allowances was $3 and $236, respectively.

Pixelworks accrues a liability for the estimated future repair and replacement costs to be incurred under the provisions of Pixelworks' warranty agreements. As of December 31, 1998 and 1999, the reserve for warranty repairs was $1 and $133, respectively.

Licensing and development fees represent revenue earned for the development of certain technology and limited license granted to a third party.

(h) RESEARCH AND DEVELOPMENT

Research and development are charged to expense as incurred. However, software development costs are capitalized beginning when a product's technological feasibility has been established by completion of a working model and ending when a product is available for general release to customers. Completion of a working model and general release has substantially coincided. As a result, all such costs have been charged to research and development as incurred.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

(j) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these

instruments. The carrying amount of amounts due under the line of credit approximates fair value since the interest rate approximates current rates available to Pixelworks.

(k) NET LOSS PER SHARE

Pixelworks reports net loss per share in accordance with SFAS 128, EARNINGS PER SHARE, and SEC Staff Accounting Bulletin No. 98 (SAB 98), which requires the presentation of both basic and diluted earnings per share. Basic earnings per share is computed using the weighted average number of common shares outstanding and diluted earnings per share is computed using the weighted average number of common shares outstanding and dilutive potential common shares assumed to be outstanding during the period using the treasury stock method. The following potential common shares have been excluded from the computation of diluted loss per share for all periods presented because the effect would have been anti-dilutive:

	YEARS ENDED DECEMBER 31,		
	1997	1998	1999
Shares issuable under stock options.....	--	--	1,130,783
Shares of restricted stock subject to repurchase.....	4,459,472	3,235,724	2,062,381
Shares of convertible preferred stock on an as converted basis.....	2,072,571	6,636,862	10,008,588

(l) COMPREHENSIVE INCOME

Pixelworks has had no items of comprehensive income.

(m) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingencies at the date of the financial statements and the

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

(n) CONCENTRATION OF SUPPLIERS

Pixelworks does not own or operate a semiconductor fabrication facility and does not have the resources to manufacture its products internally. Pixelworks relies on two, third party foundries to produce all its products. In light of these dependencies, it is reasonably possible that failure to perform by one of these suppliers could have a severe impact on Pixelworks growth and results of operations.

(o) RISK OF TECHNOLOGICAL CHANGE

The markets in which Pixelworks competes or seeks to compete are subject to rapid technological change, frequent new product introductions, changing customer requirements for new products and features, and evolving industry standards. The introduction of new technologies and the emergence of new industry standards could render Pixelworks' products less desirable or obsolete which could harm its business.

(p) CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject Pixelworks to a

concentration of credit risk consist of cash and cash equivalents and accounts receivable. Pixelworks limits its exposure to credit risk associated with cash and cash equivalents by placing its cash and cash equivalents with various high credit quality financial institutions. Cash and cash equivalents consist of deposits and money market funds. As of December 31, 1999, Pixelworks had accounts receivable from two customers representing approximately 75% of accounts receivable. Loss or non-performance by these significant customers could adversely affect Pixelworks financial position or results from operations.

(q) PRO FORMA SHAREHOLDERS EQUITY (UNAUDITED)

Upon consummation of Pixelworks' initial public offering, all of the convertible preferred stock outstanding as of the closing date will automatically be converted into an aggregate of 10,900,007 shares of common stock based on the shares of convertible preferred stock outstanding as of December 31, 1999. Unaudited pro forma shareholders' equity as of December 31, 1999, as adjusted for the conversion of the redeemable convertible preferred stock, is disclosed on the balance sheet.

(2) BALANCE SHEET COMPONENTS

(a) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	DECEMBER 31,	
	1998	1999
Computer equipment and software	$1,179	$2,639
Tooling	427	576
Leasehold improvements	--	91
	1,606	3,306
Less accumulated depreciation and amortization	486	1,576
	$1,120	$1,730

(b) ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	DECEMBER 31,	
	1998	1999
Payroll and related liabilities	$166	$ 751
Reserve for sales returns	3	236
Royalties	--	197
Other	72	334
	$241	$1,518

(3) LINE OF CREDIT

Pixelworks has a line of credit for cash borrowings and letters of credit up to $3,000. Pixelworks may borrow up to 80% of eligible accounts receivable and as of December 31, 1999, approximately $1,485 was available for borrowing. The line of credit bears interest at prime (8.5% at December 31, 1999) plus .25%, which is payable monthly. The line of credit expires March 2000, when the principal balance outstanding becomes due and payable. The line of credit is secured by substantially all assets of Pixelworks.

Under the agreement, Pixelworks is required to maintain certain financial covenants. Pixelworks was in compliance with the covenants as of December 31, 1999.

(4) LONG-TERM DEBT

Long-term debt consists of a line of credit converted into a term loan after a six month draw-down period. The loan is payable in monthly principal installments of approximately $41, plus interest at prime (8.5% as of December 31, 1999) plus .5%. Scheduled repayments on long-term debt are: 2000--$492; 2001--$492; 2002--$99. Long-term debt is secured by substantially all assets of Pixelworks.

(5) REDEEMABLE CONVERTIBLE PREFERRED STOCK

Pixelworks has designated shares of authorized preferred stock as redeemable convertible preferred stock. The title and number of shares issued and outstanding are as follows:

		SHARES ISSUED AND OUTSTANDING	
		DECEMBER 31,	
	DESIGNATED SHARES	1998	1999
Series C redeemable convertible preferred stock, $4.68 per share liquidation preference	2,493,026	--	2,493,026
Series B redeemable convertible preferred stock, $1.20 per share liquidation preference	5,500,005	5,500,005	5,500,005
Series A redeemable convertible preferred stock, $0.43 per share liquidation preference	3,000,000	2,906,976	2,906,976
	10,993,031	8,406,981	10,900,007

(a) VOTING

The Series A, Series B and Series C redeemable convertible preferred stock (Series A, Series B and Series C) vote together with all other classes and series of stock of Pixelworks as a single class on all actions to be taken by the shareholders of Pixelworks. The Series A, Series B and Series C, voting as a separate series, each have the right to elect one member to the Board of Directors.

(b) LIQUIDATION PREFERENCES

Upon liquidation, dissolution or winding up of Pixelworks, whether voluntary or involuntary, the holders of the shares of Series C shall be paid an amount equal to the issue price for that series plus, in the case of each share, an amount equal to any dividends accrued but unpaid thereon, computed to the date payments thereof is made available, before any payment shall be made to the holders of Series B and Series A and common stock.

(c) REDEMPTION

With the approval of the holders of the majority of the then outstanding shares of preferred stock of a particular series, one or more holders of shares of Series A, Series B and Series C may, by giving notice to Pixelworks at any time after March 1, 2002, 2003 and 2004, respectively, require Pixelworks to redeem all of the outstanding preferred stock of that series in two installments, with up to one-half of the shares redeemed sixty days after receipt of notice stating the number of shares of preferred stock of the series being redeemed. The second installment is due on the first anniversary of the first installment. The preferred stock to be redeemed shall be redeemed by paying for each share in cash an amount equal to the greater of (i) the then fair market value per share or (ii) $0.43 per share, $1.20 per share and $4.68 per share for Series A, Series B and Series C, respectively, plus, in the case of each share, an amount equal to all dividends accrued and unpaid thereon.

On or after March 1, 2005, 2006 and 2007, Pixelworks may at its option establish a redemption date as of which Pixelworks shall redeem all, but not less than all, of the then outstanding Series A,

(5) REDEEMABLE CONVERTIBLE PREFERRED STOCK (CONTINUED)
Series B and Series C, respectively. The preferred stock to be redeemed shall be redeemed by paying for each share in cash an amount equal to the greater of (i) the then fair market value per share or (ii) $0.43 per share, $1.20 per share and $4.68 per share for Series A, Series B and Series C, respectively, plus, in the case of each share, an amount equal to all dividends accrued and unpaid thereon.

(d) CONVERSION

The holder of any share or shares of preferred stock shall have the right, at its option at any time, to convert any such shares of preferred stock into such number of fully paid and nonassessable shares of common stock as is obtained by (i) multiplying the number of shares of preferred stock of each series so to be converted by the issue price applicable to that series and (ii) dividing the result by the conversion price then applicable to that series. If at any time a majority of the total number of preferred stock has been converted into common stock, all outstanding shares of preferred stock of a given series shall likewise automatically convert to shares of common stock. As of December 31, 1999, Series A, Series B and Series C is convertible into 2,906,976, 5,500,005 and 2,493,026 shares of common stock, respectively.

All outstanding shares of preferred stock shall automatically convert to shares of common stock if at any time Pixelworks shall effect a firm commitment underwritten public offering of shares of common stock in which (i) the aggregate net proceeds from such offering to Pixelworks shall be at least $10,000 and (ii) the price paid by the public for such shares shall be at least $7.00 per share (appropriately adjusted to reflect the occurrence of stock splits, combinations, common stock dividends and distributions).

Pixelworks is required at all times to reserve and keep available out of its authorized common stock, solely for the purpose of issuance upon the conversion of the preferred stock, such number of shares of common stock as shall then be issuable upon the conversion of all outstanding shares of preferred stock.

If Pixelworks effectuates a stock split or reverse stock split of common stock without a corresponding stock split or reverse stock split of any given series of preferred stock, the conversion price for that series of preferred stock in effect immediately preceding the stock split or reverse stock split of the common stock shall be proportionately decreased or increased respectively.

If Pixelworks at any time subsequent to the effective date of its Third Amended and Restated Articles of Incorporation issues any additional common stock without consideration or for a consideration per share less than the conversion price for any given series of preferred stock then in effect, the conversion price applicable to each such series shall be adjusted or readjusted in accordance with Pixelworks' Third Amended and Restated Articles of Incorporation.

(6) SHAREHOLDERS' EQUITY

(a) SHAREHOLDERS' AGREEMENT

The founding common shareholders (Founders) are subject to an amended shareholders' agreement which provides, among other things, the restriction of the transfer of shares.

(6) SHAREHOLDERS' EQUITY (CONTINUED)

As provided in the amended shareholders' agreement, Pixelworks has the right to buy back from the Founders, the share or shares of common stock outstanding in the event the Founder or Founders terminates employment prior to their fourth anniversary. This right diminishes ratably over the four-year employment history of the respective common shareholder. This right lapses upon an initial public offering.

As of December 31, 1999, there were 1,302,071 common shares subject to the shareholders' agreement.

(b) WARRANTS

In connection with the Series A redeemable convertible preferred stock offering, Pixelworks issued warrants, at a nominal value, for the purchase of up to an aggregate of 1,235,465 shares of Pixelworks' common stock at an exercise price of $1.012 per share. The warrants were exercised in 1999.

The fair value of the warrants issued of $71 was determined by applying the Black-Scholes methodology using the issuance date for Series A redeemable convertible preferred stock as the measurement date. The per share weighted average fair market value was $0.06 on the date of grant, with the following weighted average assumptions: Risk-free interest rate of 6%, expected dividend yield of -0-%, a two-year term and an expected volatility of 100%.

(c) NOTE RECEIVABLE FOR COMMON STOCK

During 1999, 250,000 stock options were exercised for 46,042 and 203,958 shares of common stock and common stock subject to vesting, respectively, in exchange for a note receivable. The note receivable is due and payable the earlier of 1) August 31, 2008 or 2) upon termination of the borrower's employment and bears interest at 6% per year, payable annually. The note receivable is secured by the shares of common stock issued thereunder. As of December 31, 1999, there were 189,794 shares of unvested common stock.

(d) STOCK OPTIONS

Pixelworks has a stock option plan under which a total of 4,226,744 stock options may be granted to key employees. Options granted under the plan must generally be exercised while the individual is an employee and within ten years of the date of grant. On the standard vesting schedule, each option shall become exercisable at a rate of 25% on the first anniversary date of the grant and on the last day of every month thereafter for a total of thirty-six additional increments unless otherwise specifically stated at the time of grant. On the alternative vesting schedule, options become exercisable monthly for a period of four years, with 10% becoming exercisable in the first year, 20% becoming exercisable in the second year, 30% becoming exercisable in the third year, and 40% becoming exercisable in the fourth year.

(6) SHAREHOLDERS' EQUITY (CONTINUED)

Had Pixelworks accounted for its stock-based compensation plan in accordance with SFAS 123, Pixelworks' net loss would approximate the pro forma disclosure as follows:

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31, 1997	YEARS ENDED DECEMBER 31, 1998	YEARS ENDED DECEMBER 31, 1999
Net loss attributable to common shareholders:			
As reported	$ (376)	$(1,613)	$ (9,165)
Pro forma	(379)	(1,663)	(10,082)
Basic and diluted net loss per share:			
As reported	(0.68)	(0.91)	(2.30)
Pro forma	(0.69)	(0.94)	(2.53)

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts and additional awards are anticipated in future years.

The fair value of compensation costs reflected in the above pro forma amounts were determined using the Black-Scholes option pricing model and the following weighted average assumptions for grants used in the calculation are as follows:

	1997	1998	1999
Risk-free interest rate	6.3%	5.0%	5.4%
Expected dividend yield	0%	0%	0%
Expected life	7 years	6 years	5 years
Volatility	100%	100%	100%

Under the Black-Scholes option pricing model the weighted-average fair value of options granted during 1997, 1998 and 1999 was approximately $0.21, $0.20 and $3.27, respectively.

(6) SHAREHOLDERS' EQUITY (CONTINUED)

The following is a summary of stock option activity:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding as of January 16, 1997	--	$ --
Granted	70,500	.25
Options outstanding as of December 31, 1997	70,500	.25
Granted	778,000	.25
Canceled	(500)	.25

Options outstanding as of December 31, 1998.....	848,000	.25
Granted.....	1,454,250	1.96
Exercised.....	(347,412)	.47
Canceled.....	(12,000)	.25
Options outstanding as of December 31, 1999.....	1,942,838	$1.49

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICE	NUMBER OUTSTANDING AT DECEMBER 31, 1999	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 1999	WEIGHTED AVERAGE EXERCISE PRICE
$.25-.49	741,088	8.8	$ .29	153,557	$ .25
.75-1.45	483,300	9.5	1.23	--	--
2.23-3.64	718,450	9.8	2.89	38,979	3.62
$.25-3.64	1,942,838	9.3	$1.49	192,536	$ .93

As of December 31, 1999, 1,936,494 shares were available for grant.

Pixelworks has recorded deferred stock compensation of $2,795 through December 31, 1999. This deferred stock compensation is based on the difference between the deemed fair market value of common stock and the exercise price of the option or stock on the grant date. Deferred stock compensation is being amortized over the vesting period of the options, which is generally four years. Pixelworks recognized compensation expense of $565 during the year ended December 31, 1999 related to these grants. Amortization of the December 31, 1999 balance of deferred stock compensation for the years ending December 31, 2000, 2001, 2002 and 2003 would approximate $1,113, $640, $346 and $131, respectively.

(7) INCOME TAXES

Components of the provision for income taxes for the years ended December 31, 1998 and 1999 is comprised of current foreign taxes in the amount of $14 and $3, respectively, and none during the period from January 16, 1997 (date of inception) to December 31, 1997.

(7) INCOME TAXES (CONTINUED)

The significant differences between the U.S. federal statutory tax rate and Pixelworks' effective tax rate for financial statement purposes are as follows:

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31, 1997	YEARS ENDED DECEMBER 31, 1998	YEARS ENDED DECEMBER 31, 1999
Computed "expected" income tax benefit.....	(34)%	(34)%	(34)%
Increases (decreases) resulting from:			
State income taxes, net of federal tax benefit.....	(4)	(4)	(4)
Increase in valuation allowance.....	41	42	39
Research and experimentation credit.....	(3)	(3)	(4)
Other.....	--	--	3

Actual tax expense	-- %	1 %	-- %

The tax effects of temporary differences and net operating loss carryforwards which give rise to significant portions of deferred tax assets and deferred tax liabilities are as follows:

	DECEMBER 31,	
	1998	1999
Deferred tax assets:		
Net operating loss carryforwards	$ 665	$ 1,920
Research and experimentation credit	63	273
Accrued vacation	27	54
Allowance for doubtful accounts	4	59
Depreciation and amortization	52	221
Other	3	201
Total gross deferred tax assets	814	2,728
Less valuation allowance	(814)	(2,728)
Net deferred tax assets	$ --	$ --

The valuation allowance for the deferred tax assets as of January 16, 1997 (date of inception) was $-0-. The net change in the total valuation allowance for the period ended December 31, 1997 and the years ended December 31, 1998 and 1999 was an increase of approximately $154, $660 and $1,914, respectively.

A provision of the Tax Reform Act of 1986 requires the utilization of net operating losses and credits be limited when there is a change of more than 50% in ownership of Pixelworks. Such changes occurred with the sale of preferred stock in 1998. Accordingly, the utilization of the net operating loss and credit carryforwards generated from periods prior to April 28, 1998 is limited; the federal net operating loss carryforwards subject to the limitation are approximately $351.

As of December 31, 1999, Pixelworks has net operating loss and research credit carryforwards of approximately $5,007 and $305, respectively, which will expire between 2012-2018.

(8) SEGMENT INFORMATION

In accordance with SFAS 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, Pixelworks has identified a single operating segment: the design and development of integrated circuits for electronic display devices.

(a) SIGNIFICANT CUSTOMERS

Sales to one distributor represented 51% of total revenue for the year ended December 31, 1998. Sales to two distributors represented 55% and 24%, separately, of total revenue for the year ended December 31, 1999. No other customer represented more than 10% of revenue.

(b) GEOGRAPHIC INFORMATION

Revenue by geographic region was as follows:

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31, 1997	YEARS ENDED DECEMBER 31, 1998	1999
Japan	$ --	$500	$ 7,136
Taiwan	--	--	3,126
Korea	--	--	1,230
United States	400	478	923
Other	--	--	397
Total revenue	$400	$978	$12,812

(9) COMMITMENTS AND CONTINGENCIES

(a) ROYALTIES

During 1999, Pixelworks agreed to pay certain suppliers a per unit royalty based on a certain number of chips sold. Royalties are paid monthly and expire through November 6, 2006. Royalties are charged to cost of goods sold in the statement of operations. Pixelworks has recorded $383 in royalty expense for the year ended December 31, 1999.

(b) 401(k) PLAN

Effective January 1, 1999, Pixelworks implemented a profit-sharing plan for eligible employees under the provisions of Internal Revenue Code Section 401(k). Participants may defer a percentage of their annual compensation on a pre-tax basis, not to exceed the dollar limit which is set by law. A discretionary matching contribution by Pixelworks is allowed and is equal to a uniform percentage of the amount of salary reduction elected to be deferred, which percentage will be determined each year by Pixelworks. Pixelworks made no contributions to the 401(k) plan during 1999.

(9) COMMITMENTS AND CONTINGENCIES (CONTINUED)

(c) LEASES

Pixelworks leases office space under various operating leases which expire at various dates through 2004. Future minimum payments under the leases are as follows:

YEARS ENDING DECEMBER 31:	
2000	$ 448
2001	498
2002	514
2003	509
2004	212
Total	$2,181

Rent expense for the period from January 16, 1997 (date of inception) to December 31, 1997 and the years ended December 31, 1998 and 1999 was $36, $80 and $243, respectively.

During 1999, Pixelworks entered into a noncancelable sublease agreement which expires in August 2002. Future minimum payments to be received under the sublease are as follows: 2000--$33; 2001--$33; and 2002--$21. Sublease income

was $19 during the year ended December 31, 1999, which was included in rent expense.

(d) CONTINGENCIES

From time to time, Pixelworks may be a party to various lawsuits and claims incidental to its business. The Company is not currently subject to any lawsuit or claim which it believes will have a material adverse effect on its financial position, results of operations or liquidity.

(10) SUBSEQUENT EVENTS (UNAUDITED)

(a) SERIES D OFFERING

On February 23, 2000, Pixelworks issued a total of 2,239,212 at $12.75 per share shares of Series D preferred stock.

(b) LICENSE PURCHASE

In February of 2000, Pixelworks entered into a license agreement with InFocus Systems, Inc. for the use of its proprietary automatic pixel clock phase and frequency correction technology specified in two patents held by InFocus in exchange for 156,863 shares of Series D preferred stock, valued at $12.75 per share, and $2.4 million in cash, payable in four equal quarterly installments beginning March 31, 2000. Pixelworks also received a release of any claims InFocus may have against Pixelworks relating to these patents.

(10) SUBSEQUENT EVENTS (UNAUDITED) (CONTINUED)

YEARS ENDING DECEMBER 31:

(c) 2000 EMPLOYEE STOCK PURCHASE PLAN

The 2000 Employee Stock Purchase Plan was adopted by the board in February 2000, subject to shareholder approval. A total of 1,000,000 shares of common stock has been reserved for issuance under the employee stock purchase plan.

[INSIDE BACK COVER]

SHARES

PIXELWORKS, INC.

COMMON STOCK

[LOGO]

PROSPECTUS

, 2000

SALOMON SMITH BARNEY

DEUTSCHE BANC ALEX. BROWN

SG COWEN

E*OFFERING

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the costs and expenses expected to be incurred by the Registrant in connection with the offering described in this Registration Statement. All amounts are estimates except the SEC registration fee.

SEC Registration Fee	$ 19,800
NASD Filing fee	8,000
Nasdaq National Market listing fee	95,000
Printing Expenses	200,000*
Accounting Fees and Expenses	250,000*
Legal Fees and Expenses	275,000*
Blue sky qualification fees and expenses	10,000*
Transfer Agent and Registrar Fees	15,000*
Miscellaneous Expenses	27,200*
Total	$900,000

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* Estimate.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

As an Oregon corporation, we are subject to the Oregon Business Corporation Act ("OBCA") and the exculpation from liability and indemnification provisions contained therein. Pursuant to Section 60.047(2)(d) of the OBCA, Article IV of our Fifth Restated Articles of Incorporation (the "Restated Articles") eliminates the liability of our directors to us or our shareholders, except for any liability related to breach of the duty of loyalty, actions not in good faith and certain other liabilities.

Section 60.387 et seq. of the OBCA allows corporations to indemnify their directors and officers against liability where the director or officer has acted in good faith and with a reasonable belief that actions taken were in the best interests of the corporation or at least not adverse to the corporation's best interests and, if in a criminal proceeding, the individual had no reasonable cause to believe the conduct in question was unlawful. Under the OBCA, corporations may not indemnify against liability in connection with a claim by or in the right of the corporation but may indemnify against the reasonable expenses associated with such claims. Corporations may not indemnify against breaches of the duty of loyalty. The OBCA provides for mandatory indemnification of directors against all reasonable expenses incurred in the successful defense of any claim made or threatened whether or not such claim was by or in the right of the corporation. Finally, a court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances whether or not the director or officer met the good faith and reasonable belief standards of conduct set out in the statute. Article IV of the Restated Articles requires us to indemnify our directors and officers to the fullest extent not prohibited by law.

The OBCA also provides that the statutory indemnification provisions are not deemed exclusive of any other rights to which directors or officers may be entitled under a corporation's articles of incorporation or bylaws, any agreement, general or specific action of the board of directors, vote of shareholders or otherwise.

We also have entered into indemnity agreements with each of our executive officers and each member of our Board of Directors. These indemnity agreements provide for indemnification of the indemnitee to the fullest extent allowed by law.

ITEM 15. RECENT SALE OF UNREGISTERED SECURITIES.

In the three years prior to the effective date of this Registration Statement, we have issued and sold the following unregistered securities:

- On April 25, 1997, we issued and sold 2,906,976 shares of Series A preferred stock to investors for an aggregate consideration of $1,250,000 in cash.

- On April 29, 1998, we issued and sold 5,500,005 shares of Series B preferred stock to investors for an aggregate consideration of $6,000,006 in cash.

- On May 28, 1999, we issued and sold 2,493,026 shares of Series C preferred stock to investors for an aggregate consideration of $11,667,360 in cash.

- On August 31, 1999, we granted 250,000 shares of common stock from our stock incentive plan to an employee for an aggregate consideration of $115,700.

- On February 23, 2000, we issued and sold 2,239,212 shares of Series D preferred stock to investors for an aggregate consideration of $26,550,000 in cash and, in the case of one of the investors, rights under a patent license agreement.

- Since February 24, 1997, we have granted 2,288,750 options for shares of common stock to our employees, consultants and other service providers. As of February 24, 2000, 157,393 of those options have been exercised for an aggregate consideration of $60,948.45 and 216,458 have been canceled, leaving 1,914,899 options outstanding.

Upon completion of the offering covered by this Registration Statement, all outstanding shares of Series A, Series B, Series C and Series D preferred stock will automatically convert into 13,139,219 shares of common stock.

The sale of the above securities was deemed to be exempt from registration under the Securities Act of 1933 in reliance upon Section 4(2) of the Securities Act of 1933 and/or Regulation D promulgated thereunder or Rule 701 promulgated under Section 3(b) of the Securities Act of 1933 as transactions by an issuer not involving any public offering or transactions pursuant to compensation benefit plans and contracts relating to compensation as provided under Rule 701. These sales were made without general solicitation or advertising. The recipients of securities in each such transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment.

ITEM 16. EXHIBITS.

(a) The following exhibits as filed herewith:

NO.__DESCRIPTION

EXHIBIT NO.	DOCUMENT

1.1 *	Form of Underwriting Agreement.
3.1 *	Fifth Amended and Restated Articles of Incorporation of Pixelworks, Inc.
3.2 *	Sixth Amended and Restated Articles of Incorporation of Pixelworks, Inc.
3.3	First Restated Bylaws of Pixelworks, Inc.
4.1	Reference is made to Exhibit 3.1.
4.2	Third Amended Registration Rights Agreement dated February 22, 2000.
4.3 *	Rights Agreement between Pixelworks, Inc. and dated .
5.1 *	Opinion of Ater Wynne LLP as to the legality of the Common Stock being registered.
10.1	Form of Indemnity Agreement between Pixelworks, Inc. and each of its Officers and Directors.
10.2	Pixelworks, Inc. 1997 Stock Incentive Plan.
10.3	Loan and Security Agreement dated August 14, 1998 between Silicon Valley Bank and Pixelworks, Inc.
10.4	Loan Modification Agreement (modification to Exhibit 10.3) dated April 9, 1999 between Silicon Valley Bank and Pixelworks, Inc.
10.5	Negative Pledge Agreement dated August 14, 1998 between Silicon Valley Bank and Pixelworks, Inc.
10.6	Pixelworks, Inc. 2000 Employee Stock Purchase Plan.
10.7	Lease Agreement dated April 14, 1999 between Southcenter III and IV Investors LLC and Pixelworks, Inc.
10.8 +	VAutomation Incorporated Synthesizable Soft Core Agreement dated November 4, 1997 between VAutomation Incorporated and Pixelworks, Inc.
10.9 +	Intellectual Property Sublicense Agreement dated March 30, 1999 between VAutomation Incorporated and Pixelworks, Inc.
10.10	License Agreement dated February 22, 2000 between Pixelworks, Inc. and InFocus Systems, Inc.
23.1 *	Consent of Ater Wynne LLP. Reference is made to Exhibit 5.1.
23.2	Consent of KPMG LLP.
24.1	Powers of Attorney. Reference is made to the signature page hereof.
27.1	Financial Data Schedule.

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* To be filed by amendment.

\+ Confidential treatment requested as to certain portions of this exhibit.

(b) Schedules have been omitted since they are not required or are not applicable or the required information is shown in the financial statement or related notes.

ITEM 17. UNDERTAKINGS.

We hereby undertake that, for the purpose of determining any liability under the Securities Act each filing of our annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than our payment of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, we will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

We hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement: (i) to include any prospectus required by section 10(a)(3) of the Securities Act; (ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of this offering.

(4) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of Prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(5) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Tualatin, State of Oregon, on February 22, 2000.

PIXELWORKS, INC.

By: /s/ ALLEN H. ALLEY

Allen H. Alley
PRESIDENT

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Allen H. Alley and Jeffrey B. Bouchard and each of them singly, as true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign the Registration Statement filed herewith and any or all further amendments to said Registration Statement (including post-effective amendments and new registration statements pursuant to Rule 462 or otherwise), and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the foregoing, as full to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his substitute, may lawfully do or cause to be done by virtue hereof.

Witness our hands on the date set forth below. Pursuant to the requirements of the Securities Act, this Registration Statement has been duly signed by the following persons in the capacities indicated on February 22, 2000.

SIGNATURE	TITLE
/s/ ALLEN H. ALLEY Allen H. Alley	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ JEFFREY B. BOUCHARD Jeffrey B. Bouchard	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ OLIVER D. CURME Oliver D. Curme	Director
/s/ MARK A. STEVENS Mark A. Stevens	Director
/s/ FRANK GILL Frank Gill	Director

EXHIBIT INDEX

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\+ Confidential treatment requested as to certain portions of this exhibit.

EXHIBIT 3.3

FIRST RESTATED BYLAWS
OF
PIXELWORKS, INC.

ARTICLE I

OFFICES

1.1 PRINCIPAL OFFICE. The principal office of the Corporation shall be located at 7700 SW Mohawk Street, Tualatin, Oregon 97062. The Corporation may have such other offices as the Board of Directors may designate or as the business of the Corporation may from time to time require.

1.2 REGISTERED OFFICE. The registered office of the Corporation required by the Oregon Business Corporation Act to be maintained in the State of Oregon may be, but need not be, identical with the principal office in the State of Oregon, and the address of the registered office may be changed from time to time by the Board of Directors.

ARTICLE II

SHAREHOLDERS

2.1 ANNUAL MEETING. The annual meeting of the shareholders shall be held in May or June of each year, unless a different date and time are fixed by the Board of Directors and stated in the notice of the meeting, beginning with the year 2000. The failure to hold an annual meeting at the time stated herein shall not affect the validity of any corporate action.

2.2 SPECIAL MEETING. Special meetings of the shareholders may be called by the President or by the Board of Directors and shall be called by the President (or in the event of absence, incapacity, or refusal of the President, by the Secretary or any other officer) at the request of the holders of not less than one-tenth of all the outstanding shares of the Corporation entitled to vote at the meeting. The requesting shareholders shall sign, date, and deliver to the Secretary a written demand describing the purpose or purposes for holding the special meeting.

2.3 PLACE OF MEETINGS. Meetings of the shareholders shall be held at the principal business office of the Corporation or at such other place, within or without the State of Oregon, as may be determined by the Board of Directors.

2.4 NOTICE OF MEETINGS. Written notice stating the date, time, and place of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called shall be mailed to each shareholder entitled to vote at the meeting at the shareholder's address shown in the Corporation's current record of shareholders, with postage thereon prepaid, not less than 10 nor more than 60 days before the date of the meeting.

2.5 WAIVER OF NOTICE. A shareholder may at any time waive any notice required by law, the Articles of Incorporation or these First Restated Bylaws. The waiver must be in writing, be signed by the shareholder entitled to the notice, and be delivered to the Corporation for inclusion in the minutes for filing with the corporate records. A shareholder's attendance at a meeting waives objection to lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting. The shareholder's attendance also waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

2.6 RECORD DATE

(a) For the purpose of determining shareholders entitled to notice of a shareholders' meeting, to demand a special meeting, or to vote or to take any other action, the Board of Directors may fix a future date as the record date for any such determination of shareholders, such date in any case to be not more than 70 days before the meeting or action requiring a determination of shareholders. The record date shall be the same for all voting groups.

(b) A determination of shareholders entitled to notice of or to vote at a shareholders' meeting is effective for any adjournment of the meeting unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

(c) If a court orders a meeting adjourned to a date more than 120 days after the date fixed for the original meeting, it may provide that the original record date continue in effect or it may fix a new record date.

2.7 SHAREHOLDERS LIST FOR MEETING. After the record date for a shareholders' meeting is fixed by the Board of Directors, the Secretary of the Corporation shall prepare an alphabetical list of the names of all its shareholders entitled to notice of the shareholders' meeting. The list must be arranged by voting group and within each voting group by class or series of shares and show the address of and number of shares held by each shareholder. The shareholders' list must be available for inspection by any shareholder, beginning two business days after notice of the meeting is given for which the list was prepared and continuing through the meeting, at the Corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held. The Corporation shall make the shareholders' list available at the meeting, and any shareholder or the shareholder's agent or attorney is entitled to inspect the list at any time

during the meeting or any adjournment. Refusal or failure to prepare or make available the shareholders' list does not affect the validity of action taken at the meeting.

2.8 QUORUM; ADJOURNMENT. Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. A majority of the votes entitled to be cast on the matter by the voting group constitutes a quorum of that voting group for action in that matter. A majority of shares represented at the meeting, although less than a quorum, may adjourn the meeting from time to time to a different time and place without further notice to any shareholder of any adjournment. At such adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted at the meeting originally held. Once a share is represented for any purpose at a meeting, it shall be deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting, unless a new record date is set for the adjourned meeting.

2.9 VOTING REQUIREMENTS: ACTION WITHOUT MEETING. Unless otherwise provided in the Articles of Incorporation, each outstanding share entitled to vote shall be entitled to one vote upon each matter submitted to a vote at a meeting of shareholders. If a quorum exists, action on a matter, other than the election of directors, is approved if the votes cast by the shares entitled to vote favoring the action exceed the votes cast opposing the action, unless a greater number of affirmative votes is required by law or the Articles of Incorporation. If a quorum exists, directors are elected by a plurality of the votes cast by the shares entitled to vote unless otherwise provided in the Articles of Incorporation. No cumulative voting for directors shall be permitted unless the Articles of Incorporation so provide. Action required or permitted by law to be taken at a shareholders' meeting may be taken without a meeting if the action is taken by all the shareholders entitled to vote on the action. The action must be evidenced by one or more written consents describing the action taken, signed by all the shareholders entitled to vote on the action and delivered to the Corporation for inclusion in the minutes for filing with the corporate records. Action taken under this section is effective when the last shareholder signs the consent, unless the consent specifies an earlier or later effective date. If the law requires that notice of proposed action be given to nonvoting shareholders and the

action is to be taken by unanimous consent of the voting shareholders, the Corporation must give its nonvoting shareholders written notice of the proposed action at least 10 days before the action is taken. The notice must contain or be accompanied by the same material that, under the Oregon Business Corporation Act, would have been required to be sent to nonvoting shareholders in a notice of meeting at which the proposed action would have been submitted to the shareholders for action.

2.10 PROXIES.

(a) A shareholder may vote shares in person or by proxy by signing an appointment, either personally or by the shareholder's attorney-in-fact. An appointment of a proxy shall be effective when received by the Secretary or other officer of the Corporation authorized to tabulate votes. An appointment is valid for 11 months unless a longer period is provided in the

appointment form. An appointment is revocable by the shareholder unless the appointment form conspicuously states that it is irrevocable and the appointment is coupled with an interest that has not been extinguished.

(b) The death or incapacity of a shareholder appointing a proxy shall not affect the right of the Corporation to accept the proxy's authority unless notice of the death or incapacity is received by the Secretary or other officer authorized to tabulate votes before the proxy exercises the proxy's authority under the appointment.

2.11 CORPORATION'S ACCEPTANCE OF VOTES.

(a) If the name signed on a vote, consent, waiver, or proxy appointment corresponds to the name of a shareholder, the Corporation, if acting in good faith, is entitled to accept the vote, consent, waiver, or proxy appointment and give it effect as the act of the shareholder.

(b) If the name signed on a vote, consent, waiver, or proxy appointment does not correspond to the name of a shareholder, the Corporation, if acting in good faith, is nevertheless entitled to accept the vote, consent, waiver, or proxy appointment and give it effect as the act of the shareholder if:

(i) The shareholder is an entity and the name signed purports to be that of an officer or agent of the entity;

(ii) The name signed purports to be that of an administrator, executor, guardian, or conservator representing the shareholder and, if the Corporation requests, evidence of fiduciary status acceptable to the Corporation has been presented with respect to the vote, consent, waiver, or proxy appointment;

(iii) The name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the Corporation requests, evidence of this status acceptable to the Corporation has been presented with respect to the vote, consent, waiver, or proxy appointment;

(iv) The name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the shareholder and, if the Corporation requests, evidence acceptable to the Corporation of the signatory's authority to sign for the shareholder has been presented with respect to the vote, consent, waiver, or proxy appointment; or

(v) Two or more persons are the shareholder as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-owners and the person signing appears to be acting on behalf of all co-owners.

(c) The Corporation is entitled to reject a vote, consent, waiver, or proxy appointment if the Secretary or other officer or agent authorized to tabulate votes, acting in good faith, has reasonable basis for

doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

(d) The shares of a corporation are not entitled to vote if they are owned, directly or indirectly, by a second corporation, and the first corporation owns, directly or indirectly, a majority of the shares entitled to vote for directors of the second corporation; provided, however, a corporation may vote any shares, including its own shares, held by it in a fiduciary capacity.

(e) The Corporation and its officer or agent who accepts or rejects a vote, consent, waiver, or proxy appointment in good faith and in accordance with the standards of this provision shall not be liable in damages to the shareholder for the consequences of the acceptance or rejection. Corporate action based on the acceptance or rejection of a vote, consent, waiver, or proxy appointment under this provision is valid unless a court of competent jurisdiction determines otherwise.

2.12 NOTICE OF BUSINESS TO BE CONDUCTED AT MEETING. At an annual meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before an annual meeting by a shareholder.

For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 60 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made.

A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the shareholder proposing such business, (c) the class and number of shares of stock of the Corporation which are beneficially owned by the shareholder, and (d) any material interest of the shareholder in such business. Notwithstanding anything in the Bylaws to the contrary, no business

shall be conducted at any annual meeting except in accordance with the procedures set forth in this Section 2.12.

The Chairman of the annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 2.12 and if the Chairman should so determine, the Chairman shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

ARTICLE III

BOARD OF DIRECTORS

3.1 DUTIES. All corporate powers shall be exercised by or under the authority of the Board of Directors and the business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

3.2 NUMBER AND QUALIFICATION. The number of directors of the Corporation shall be not less than three nor more than twelve, and within such limits, the exact number shall be fixed and increased or decreased from

time to time by resolution of the Board of Directors. If the number of directors is fixed by the Board of Directors at five or less, the directors shall hold office until the next annual meeting of shareholders and until their successors have been elected and qualified. If the number of directors is fixed by the Board of Directors at six or more, the directors shall be divided into three classes designated Class I, Class II and Class III, each class to be as nearly equal in number as possible. At the next annual meeting of shareholders following that designation ("First Meeting"), directors of all three classes shall be elected. The term of office of Class I directors shall expire at the first annual meeting of shareholders following their election. The terms of Class II directors shall expire at the second annual meeting of shareholders following their election. The terms of the Class III directors shall expire at the third annual meeting of shareholders following their election. At each annual meeting of shareholders after the First Meeting, each class of directors elected to succeed those directors whose terms expire shall be elected to serve for three-year terms and until their successors are elected and qualified, so that the term of one class of directors will expire each year. When the number of directors is changed within the limits provided herein, any newly created directorships, or any decrease in directorships, shall be so apportioned among the classes as to make all classes as nearly equal as possible, provided that no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent directors. Directors need not be residents of the State of Oregon or shareholders of the Corporation.

3.3 CHAIRMAN OF THE BOARD OF DIRECTORS. The directors may elect a director to serve as Chairman of the Board of Directors to preside at all meetings of the Board of Directors and to fulfill any other responsibilities delegated by the Board of Directors.

3.4 REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this Section 3.4 immediately after, and at the same place as, the annual meeting of shareholders. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Oregon, for the holding of additional regular meetings without other notice than the resolution.

3.5 SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the President or any director. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Oregon, as the place for holding any special meeting of the Board of Directors called by them.

3.6 NOTICE. Notice of the date, time, and place of any special meeting of the Board of Directors shall be given at least three days prior to the meeting by any means provided by law. If mailed, notice shall be deemed to be given upon deposit in the United States mail addressed to the director at the director's business address, with postage thereon prepaid. If by telegram, notice shall be deemed to be given when the telegram is delivered to the telegraph company. Notice by all other means shall be deemed to be given when received by the director or a person at the director's business or residential address whom the person giving notice reasonably believes will deliver or report the notice to the director within 24 hours. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

3.7 WAIVER OF NOTICE. A director may at any time waive any notice required by law, the Articles of Incorporation, or these First Restated Bylaws. Unless a director attends or participates in a meeting, a waiver must be in writing, must be signed by the director entitled to notice, must specify the meeting for which notice is waived, and must be filed with the minutes or corporate records.

3.8 OUORUM. A majority of the number of directors fixed by Section 3.2 shall constitute a quorum for the transaction of business at any

meeting of the Board of Directors.

3.9 MANNER OF ACTING.

(a) The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless a different number is provided by law, the Articles of Incorporation, or these First Restated Bylaws.

(b) Members of the Board of Directors may hold a board meeting by conference telephone or similar communications equipment by means of which all persons

participating in the meeting can hear each other. Participation in such a meeting shall constitute presence in person at the meeting.

(c) Any action that is required or permitted to be taken by the directors at a meeting may be taken without a meeting if a consent in writing setting forth the action so taken shall be signed by all of the directors entitled to vote on the matter. The action shall be effective on the date when the last signature is placed on the consent or at such earlier or later time as is set forth therein. Such consent, which shall have the same effect as a unanimous vote of the directors, shall be filed with the minutes of the Corporation.

3.10 VACANCIES. Any vacancy, including a vacancy resulting from an increase in the number of directors, occurring on the Board of Directors may be filled by the shareholders, the Board of Directors, or the affirmative vote of a majority of the remaining directors if less than a quorum of the Board of Directors, or by a sole remaining director. If the vacant office is filled by the shareholders and was held by a director elected by a voting group of shareholders, then only the holders of shares of that voting group are entitled to vote to fill the vacancy. Any directorship not so filled by the directors shall be filled by election at an annual meeting or at a special meeting of shareholders called for that purpose. A director elected to fill a vacancy shall be elected to serve until the next annual meeting of shareholders and until a successor shall be duly elected and qualified. A vacancy that will occur at a specific later date, by reason of a resignation or otherwise, may be filled before the vacancy occurs, and the new director shall take office when the vacancy occurs.

3.11 COMPENSATION. By resolution of the Board of Directors, the directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

3.12 PRESUMPTION OF ASSENT. A director of the Corporation who is present at a meeting of the Board of Directors or a committee of the Board of Directors shall be presumed to have assented to the action taken (a) unless the director's dissent to the action is entered in the minutes of the meeting, (b) unless a written dissent to the action is filed with the person acting as the secretary of the meeting before the adjournment thereof or forwarded by certified or registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting or (c) unless the director objects at the meeting to the holding of the meeting or transacting business at the meeting. The right to dissent shall not apply to a director who voted in favor of the action.

3.13 DIRECTOR CONFLICT OF INTEREST.

(a) A transaction in which a director of the Corporation has a direct or indirect interest shall be valid notwithstanding the director's interest in the transaction if the material facts of the transaction and the director's interest are disclosed or known to the Board of

Directors or a committee thereof and it authorizes, approves, or ratifies the transaction by a vote or consent sufficient for the purpose without counting the votes or consents of directors with a direct or indirect interest in the transaction; or the material facts of the transaction and the director's interest are disclosed or known to shareholders entitled to vote and they, voting as a single group, authorize, approve, or ratify the transaction by a majority vote; or the transaction is fair to the Corporation.

(b) A conflict of interest transaction may be authorized, approved, or ratified if it receives the affirmative vote of a majority of directors on the Board of Directors or a committee thereof who have no direct or indirect interest in the transaction. If a majority of such directors vote to authorize, approve, or ratify the transaction, a quorum is present for the purpose of taking action.

(c) A conflict of interest transaction may be authorized, approved, or ratified by a majority vote of shareholders entitled to vote thereon. Shares owned by or voted under the control of a director or an entity controlled by a director who has a direct or indirect interest in the transaction are entitled to vote with respect to a conflict of interest transaction. A majority of the shares, whether or not present, that are entitled to be counted in a vote on the transaction constitutes a quorum for the purpose of authorizing, approving, or ratifying the transactions.

(d) A director has an indirect interest in a transaction if (i) another entity in which the director has a material financial interest or in which the director is a general partner is a party to the transaction or (ii) another entity of which the director is a director, officer, or trustee is a party to the transaction and the transaction is or should be considered by the Board of Directors.

3.14 REMOVAL. All or any number of the directors of the Corporation may be removed only for cause and at a meeting of shareholders called expressly for that purpose, by the vote of 75 percent of the votes then entitled to be cast for the election of directors. Cause for removal shall be deemed to exist only if the director whose removal is proposed has engaged in criminal conduct or has engaged in fraudulent or dishonest conduct or gross abuse of authority or discretion with respect to the Corporation. At any meeting of shareholders at which one or more directors are removed, a majority of votes then entitled to be cast for the election of directors may fill any vacancy created by such removal. If any vacancy created by removal of a director is not filled by the shareholders at the meeting at which the removal is effected, such vacancy may be filled by a majority vote of the remaining directors.

3.15 RESIGNATION. Any director may resign by delivering written notice to the Board of Directors, its chairperson, or the Corporation. Such resignation shall be effective at the earliest of the following, unless the notice specifies a later effective date, (a) on receipt, (b) five days after its deposit in the United States mails, if mailed postpaid and correctly addressed, or (c) on the date shown on the return receipt, if sent by registered or certified mail, return receipt

requested, and the receipt is signed by addressee. Once delivered, a notice of resignation is irrevocable unless revocation is permitted by the Board of Directors.

3.16 NOMINATIONS FOR ELECTION TO BOARD OF DIRECTORS. Only persons who are nominated in accordance with the procedures set forth in this Section 3.16 shall be eligible for election as directors. Nominations of persons for election to the Board of Directors may be made at a meeting of shareholders by or at the direction of the Board of Directors or by any shareholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 3.16.

Such nominations, other than those made by or at the direction of the Board of Directors shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the

meeting; provided, however, that in the event that less than 60 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made.

Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of stock of the Corporation which are beneficially owned by such person, and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including, without limitation, such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (b) as to the shareholder giving the notice, (i) the name and address, as they appear on the Corporation's books, of such shareholder, and (ii) the class and number of shares of stock of the Corporation which are beneficially owned by such shareholder.

At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a shareholder's notice of nomination which pertains to the nominee.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 3.16. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these First Restated Bylaws, and if the

Chairman should so determine, the Chairman shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE IV

EXECUTIVE COMMITTEE AND OTHER COMMITTEES

4.1 DESIGNATION OF EXECUTIVE COMMITTEE. The Board of Directors may designate two or more directors to constitute an executive committee. The designation of an executive committee, and the delegation of authority to it, shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law. No member of the executive committee shall continue to be a member thereof after ceasing to be a director of the Corporation. The Board of Directors shall have the power at any time to increase or decrease the number of members of the executive committee, to fill vacancies thereon, to change any member thereof, and to change the functions or terminate the existence thereof. The creation of the executive committee and the appointment of members to it shall be approved by a majority of the directors in office when the action is taken, unless a greater number is required by the Articles of Incorporation or these First Restated Bylaws.

4.2 POWERS OF EXECUTIVE COMMITTEE. During the interval between meetings of the Board of Directors, and subject to such limitations as may be imposed by resolution of the Board of Directors, the executive committee may have and may exercise all the authority of the Board of Directors in the management of the Corporation, provided that the committee shall not have the authority of the Board of Directors with respect to the following matters: authorizing distributions; approving or proposing to the shareholders actions that are required to be approved by the shareholders under the Articles of Incorporation or these First Restated Bylaws or by law; filling vacancies on the Board of Directors or any committee thereof; amending the Articles of Incorporation; adopting, amending, or repealing bylaws; approving a plan of merger not requiring shareholder approval; authorizing or approving a reacquisition of shares, except according to a formula or method prescribed by the Board of Directors; authorizing or approving the issuance or sale or contract for sale of shares or determining the designation and relative

rights, preferences, and limitations of a class or series of shares except within limits specifically prescribed by the Board of Director .

4.3 PROCEDURES; MEETINGS; QUORUM.

(a) The Board of Directors shall appoint a chairperson from among the members of the executive committee and shall appoint a secretary who may, but need not, be a member of the executive committee. The chairperson shall preside at all meetings of the executive committee and the secretary of the executive committee shall keep a record of its acts and proceedings, which shall be filed with the minutes of the Corporation.

(b) Regular meetings of the executive committee, of which no notice shall be necessary, shall be held on such days and at such places as shall be fixed by resolution adopted by the executive committee. Special meetings of the executive committee shall be called at the request of the President or of any member of the executive committee, and shall be held upon such notice as is required by these First Restated Bylaws for special meetings of the Board of Directors.

(c) Attendance of any member of the executive committee at a meeting shall constitute a waiver of notice of the meeting. A majority of the executive committee, from time to time, shall be necessary to constitute a quorum for the transaction of any business, and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the executive committee. Members of the executive committee may hold a meeting of such committee by conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such meeting shall constitute presence in person at the meeting.

(d) Any action that is required or permitted to be taken at a meeting of in the executive committee may be taken without a meeting if a consent in writing setting forth the action so taken shall be signed by all members of the executive committee entitled to vote on the matter. The action shall be effective on the date when the last signature is placed on the consent or at such earlier or later time as is set forth therein. Such consent, which shall have the same effect as a unanimous vote of the members of the executive committee, shall be filed with the minutes of the Corporation.

(e) The Board of Directors may approve a reasonable fee for the members of the executive committee as compensation for attendance at meetings of the executive committee.

4.4 OTHER COMMITTEES. By the approval of a majority of the directors when the action is taken (unless a greater number is required by the Articles of Incorporation), the Board of Directors, by resolution, may create one or more additional committees, appoint directors to serve on them, and define the duties of such committee or committees. Each such committee shall have two or more members, who shall serve at the pleasure of the Board of Directors. Such additional committee or committees, shall not have the powers proscribed in Section 4.2.

ARTICLE V

OFFICERS

5.1 NUMBER. The officers of the Corporation shall be a President and a Secretary. Such other officers and assistant officers as are deemed necessary or desirable may be appointed by the Board of Directors and shall have such powers and duties prescribed by the Board of Directors or the officer authorized by the Board of Directors to prescribe the duties of other officers. A duly appointed officer may appoint one or more officers or assistant officers if such appointment is authorized by the Board of Directors. Any two or more offices may be held by the same person.

5.2 APPOINTMENT AND TERM OF OFFICE. The officers of the Corporation shall be appointed annually by the Board of Directors at the first meeting of the Board of Directors held after the annual meeting of the shareholders. If the officers shall not be appointed at the meeting, a meeting shall be held as soon thereafter as is convenient for such appointment of officers. Each officer shall hold office until a successor shall have been duly appointed and qualified or until the officer's death, resignation, or removal.

5.3 QUALIFICATION. An officer need not be a director, shareholder, or a resident of the State of Oregon.

5.4 RESIGNATION AND REMOVAL. An officer may resign at any time by delivering notice of such resignation to the Corporation. A resignation is effective on receipt unless the notice specifies a later effective date. If the Corporation accepts a specified later effective date, the Board of Directors may fill the pending vacancy before the effective date, but the successor may not take office until the effective date. Once delivered, a notice of resignation is irrevocable unless revocation is permitted by the Board of Directors. Any officer appointed by the Board of Directors may be removed at any time with or without cause. Appointment of an officer shall not of itself create contract rights. Removal or resignation of an officer shall not affect the contract rights, if any, of the Corporation or the officer.

5.5 VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification, or otherwise may be filled by the Board of Directors for the unexpired portion of the term.

5.6 PRESIDENT. The President shall be the chief executive officer of the Corporation and shall be in general charge of its business and affairs, subject to the control of the Board of Directors. The President shall preside at all meetings of shareholders and at all meetings of directors (unless there is an acting Chairman of the Board presiding at the meeting). The President may execute on behalf of the Corporation all contracts, agreements, stock certificates, and other instruments. The President shall from time to time report to the Board of Directors all matters within the President's knowledge affecting the Corporation that should be brought to the

attention of the Board of Directors. The President shall vote all shares of stock in other corporations owned by the Corporation and is empowered to execute proxies, waivers of notice, consents, and other instruments in the name of the Corporation with respect to such stock. The President shall perform other duties assigned by the Board of Directors.

5.7 VICE PRESIDENTS. In the absence of the President or in the event of the President's death or inability or refusal to act, the Vice President (or, in the event there be more than one Vice President, the Vice Presidents in the order designated at the time of their election, or in the absence of any designation, then in the order of their election), if any, shall perform the duties of the President and, when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President shall perform other duties assigned by the President or by the Board of Directors.

5.8 SECRETARY. The Secretary shall prepare the minutes of all meetings of the directors and shareholders, shall have custody of the minute books and other records pertaining to the corporate business, and shall be responsible for authenticating the records of the Corporation. The Secretary shall countersign all instruments requiring the seal of the Corporation and shall perform other duties assigned by the Board of Directors. In the event no Vice President exists to succeed to the President under the circumstances set forth in Section 5.7 above, the Secretary shall make such succession.

5.9 ASSISTANT SECRETARIES. The Assistant Secretaries, when authorized by the Board of Directors or these First Restated Bylaws, may sign, with the President or Vice President, certificates for shares of the Corporation the issuance of which shall have been authorized by resolution of the Board of Directors. The Assistant Secretaries shall, if required by the Board of Directors, give bonds for the faithful discharge of their duties in

such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries shall, in general, perform such duties as shall be specifically assigned to them in writing by the President or the Board of Directors.

5.10 SALARIES. The salaries of the officers shall be fixed from time to time by the Board of Directors, and no officer shall be prevented from receiving such salary because the officer is also a director of the Corporation.

ARTICLE VI

ISSUANCE OF SHARES

6.1 CERTIFICATES FOR SHARES.

(a) Certificates representing shares of the Corporation shall be in a form determined by the Board of Directors. Such certificates shall be signed, either manually or in

facsimile, by two officers of the Corporation, at least one of whom shall be the President or a Vice President, and may be sealed with the seal of the Corporation or a facsimile thereof. All certificates for shares shall be consecutively numbered or otherwise identified.

(b) Every certificate for shares of stock that are subject to any restriction on transfer pursuant to the Articles of Incorporation, these First Restated Bylaws, applicable securities laws, agreements among or between shareholders, or any agreement to which the Corporation is a party shall have conspicuously noted on the face or back of the certificate either (i) the full text of the restriction or (ii) a statement of the existence of such restriction and that the Corporation retains a copy of the restriction. Every certificate issued when the Corporation is authorized to issue more than one class or series of stock shall set forth on its face or back either (i) the full text of the designations, relative rights, preferences, and limitations of the shares of each class and series authorized to be issued and the authority of the Board of Directors to determine variations for future series or (ii) a statement of the existence of such designations, relative rights, preferences, and limitations and a statement that the Corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge.

(c) The name and mailing address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. Each shareholder shall have the duty to notify the Corporation of his or her mailing address. All certificates surrendered to the Corporation for transfer shall be canceled, and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed, or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors prescribes.

6.2 TRANSFER OF SHARES. A transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by the holder's legal representative, who shall furnish proper evidence of authority to transfer, or by the holder's attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation. The person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

6.3 TRANSFER AGENT AND REGISTRAR. The Board of Directors may from time to time appoint one or more transfer agents and one or more registrars for the shares of the Corporation, with such powers and duties as the Board of Directors determines by resolution. The signatures of officers upon a certificate may be facsimiles if the certificate is manually signed on behalf of a transfer agent or by a registrar other than the Corporation itself or an employee of the Corporation.

6.4 OFFICER CEASING TO ACT. If the person who signed a share

certificate, either manually or in facsimile, no longer holds office when the certificate is issued, the certificate is nevertheless valid.

ARTICLE VII

CONTRACTS, LOANS, CHECKS, AND OTHER INSTRUMENTS

7.1 CONTRACTS. The Board of Directors may authorize any officer or officers and agent or agents to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

7.2 LOANS. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

7.3 CHECKS; DRAFTS. All checks, drafts, or other orders for the payment of money and notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers and agent or agents of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

7.4 DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as the Board of Directors may select.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

8.1 SEAL. The Board of Directors from time to time may provide for a seal of the Corporation, which shall be circular in form and shall have inscribed thereon the name of the Corporation, the state of incorporation and the words "Corporate Seal."

8.2 SEVERABILITY. Any determination that any provision of these First Restated Bylaws is for any reason inapplicable, invalid, illegal, or otherwise ineffective shall not affect or invalidate any other provision of these First Restated Bylaws.

ARTICLE IX

AMENDMENTS

These First Restated Bylaws may be altered, amended, or repealed and new bylaws may be adopted by the Board of Directors at any regular or special meeting, subject to repeal or change by action of the shareholders of the Corporation.

Bradley A. Zenger, Secretary

Adopted: February __, 2000

EXHIBIT 4.2

THIRD AMENDED REGISTRATION RIGHTS AGREEMENT

February 22, 2000

To each of the Investors in the Series A, Series B and Series C Convertible Preferred Stock of Pixelworks, Inc. listed on Exhibit A hereto (the "Investors"), the Purchasers of the Series D Convertible Preferred Stock of Pixelworks, Inc. that execute a counterpart signature page hereto (the "Purchasers") and to the Founders of Pixelworks, Inc.

Dear Sir or Madam:

This will confirm that Pixelworks, Inc., an Oregon corporation (the "Company") covenants and agrees with each of you as follows:

1. CERTAIN DEFINITIONS. As used in this Agreement, the following terms shall have the following respective meanings:

"Commission" shall mean the Securities and Exchange Commission, or any other federal agency at the time administering the Securities Act.

"Common Stock" shall mean the Common Stock, $.001 par value, of the Company, as constituted as of the date of this Agreement.

"Conversion Shares" shall mean shares of Common Stock issued or issuable (i) upon conversion of the Preferred Stock, and any shares of capital stock received in respect thereof and (ii) upon exercise of the Warrants.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Founders" shall mean Allen H. Alley, Michael G. West, Kenneth Hunkins, Robert Y. Greenberg and Bradley A. Zenger.

"Preferred Stock" shall mean the shares of Series A Convertible Preferred Stock, Series B Convertible Preferred Stock and Series C Convertible Preferred Stock held by the Investors listed on Exhibit A hereto and the Series D Convertible Preferred Stock held by the Purchasers.

"Registration Expenses" shall mean the expenses so described in Section 8.

"Restricted Stock" shall mean (1) the Conversion Shares, excluding Conversion Shares that have been (a) registered under the Securities Act pursuant to an effective registration statement filed thereunder and disposed of in accordance with the registration statement covering them or (b) publicly sold pursuant to Rule 144 under the Securities Act, and (2) for purposes of Section 5 hereof, up to 5,000,000 shares of

Common Stock held by the Founders, but excluding shares of Common Stock that have been (a) registered under the Securities Act pursuant to an effective registration statement filed thereunder and disposed of in accordance with the registration statement covering them, or (b) publicly sold pursuant to Rule 144 under the Securities Act.

"Securities Act" shall mean the Securities Act of 1933, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Selling Expenses" shall mean the expenses so described in Section 8.

"Warrants" shall mean those warrants to purchase Common Stock dated April 25, 1997 held by certain of the Investors.

2. RESTRICTIVE LEGEND. Each certificate representing Preferred Stock, Conversion Shares or Restricted Stock shall, except as otherwise provided in this Section 2 or in Section 3, be stamped or otherwise imprinted with a legend substantially in the following form:

> "The securities represented by this certificate have not been registered under the Securities Act of 1933 or applicable state securities laws. These securities have been acquired for investment and not with a view to distribution or resale, and may not be sold mortgaged, pledged, hypothecated or otherwise transferred without an effective registration statement for such securities under the Securities Act of 1933 and applicable state securities laws, or an opinion of counsel regarding the availability of an exemption from the registration provisions of the Securities Act of 1933 and applicable state securities laws."

A certificate shall not bear such legend if in the opinion of counsel reasonably satisfactory to the Company delivered in form reasonably satisfactory to the Company, the securities being sold thereby may be publicly sold without registration under the Securities Act.

3. NOTICE OF PROPOSED TRANSFER. Prior to any proposed transfer of any Preferred Stock, Conversion Shares or Restricted Stock (other than under the circumstances described in Sections 4, 5 or 6), the holder thereof shall give written notice to the Company of its intention to effect such transfer. Each such notice shall describe the manner of the proposed transfer and, if requested by the Company, shall be accompanied by an opinion of counsel reasonably satisfactory to the Company delivered in form reasonably satisfactory to the Company to the effect that the proposed transfer may be effected without registration under the Securities Act, whereupon the holder of such stock shall be entitled to transfer such stock in accordance with the terms of its notice; provided, however, that no such opinion of counsel shall be required for a transfer to one or more partners of the transferor (in the case of a transferor that is a partnership) or to an affiliated corporation (in the case of a transferor that is a corporation). Each certificate for Preferred Stock, Conversion Shares or Restricted Stock transferred as above provided shall bear the legend set forth in Section 2, except that such certificate shall not bear such legend if (i) such transfer is in accordance with the provisions of Rule 144 (or any other rule permitting public sale without registration under the Securities Act) or (ii) the opinion of counsel referred to above is to the further effect that the transferee and any subsequent transferee (other than an affiliate of the Company) would be entitled to transfer such securities in a public sale without registration under the Securities Act. The restrictions

provided for in this Section 3 shall not apply to securities which are not required to bear the legend prescribed by Section 2 in accordance with the provisions of that Section.

4. REQUIRED REGISTRATION.

a. The holders of Restricted Stock (excluding the Founders) constituting at least 36.5 % of the total shares of Restricted Stock (excluding the Founders) then outstanding may request the Company to register under the Securities Act all or any portion of the shares of Restricted Stock held by such requesting holder or holders for sale in the manner specified in such notice, provided that the shares of Restricted Stock for which registration has been requested shall constitute at least 18.2% of the total shares of Restricted Stock originally issued if such holder or holders shall request the registration of less than all shares of Restricted Stock then held by such holder or holders (or any lesser percentage if the reasonably anticipated aggregate price to the public of such public offering would exceed $5,000,000). For purposes of this Section 4 and Sections 5, 6, 13(a) and 13(d), the term "Restricted Stock" shall be deemed to include the number of shares of Restricted Stock that would be issuable to a holder of Preferred Stock upon conversion of all Preferred Stock held by such holder at such time, provided, however, that the only securities that the Company shall be required to register pursuant hereto shall be shares of Common Stock.

b. Following receipt of any notice under this Section 4, the Company shall immediately notify all holders of Restricted Stock (excluding the

Founders) from whom notice has not been received and such holders shall then be entitled within 30 days thereafter to request the Company to include in the requested registration all or any portion of their shares of Restricted Stock. The Company shall use its best efforts to register under the Securities Act, for public sale in accordance with the method of disposition specified in the notice from requesting holders described in paragraph (a) above, the number of shares of Restricted Stock specified in such notice (and in all notices received by the Company from other holders within 30 days after the giving of such notice by the Company). If such method of disposition shall be an underwritten public offering, the holders of a majority of the shares of Restricted Stock to be sold in such offering may designate the managing underwriter of such offering, subject to the approval of the Company, which approval shall not be unreasonably withheld or delayed. The Company shall be obligated to register Restricted Stock pursuant to this Section 4 on two occasions only, PROVIDED, HOWEVER, that such obligation shall be deemed satisfied only when a registration statement covering all shares of Restricted Stock specified in notices received as aforesaid, for sale in accordance with the method of disposition specified by the requesting holders, shall have become effective and, if such method of disposition is a firm commitment underwritten public offering, all such shares shall have been sold pursuant thereto.

c. The Company shall be entitled to include in any registration statement referred to in this Section 4, for sale in accordance with the method of disposition specified by the requesting holders, shares of Common Stock to be sold by the Company for its own account, except as and to the extent that, in the opinion of the managing underwriter (if such method of disposition shall be an underwritten public offering), such inclusion would adversely affect the marketing of the Restricted Stock to be sold. Except for registration statements on Form S-4, S-8 or any successor thereto, the Company will not file with the Commission any other registration statement with respect to its Common Stock, whether for its own account or that of other stockholders, from the date of receipt of a notice from requesting holders pursuant to this Section 4 until the completion of the period of distribution of the registration contemplated thereby.

d. If in the opinion of the managing underwriter the inclusion of all of the Restricted Stock requested to be registered under this Section would adversely affect the marketing of such shares, after any shares to be sold by the Company have been excluded, shares to be sold by the holders of Restricted Stock shall be excluded in such manner that the shares to be sold shall be allocated among the selling holders pro rata based on their ownership of Restricted Stock.

e. Notwithstanding the foregoing, (1) the Company shall not be obligated to effect a registration pursuant to this Section 4 during the period starting with the date 60 days prior to the Company=s good faith estimated date of filing of, and ending on the date 180 days following the effective date of, a registration statement pertaining to an underwritten public offering of securities for account of the Company, provided the Company is at all times during such period diligently pursuing such registration; (2) the Company shall not be obligated to effect a registration pursuant to this Section 4 with respect to any Restricted Stock that at the time of the request for such registration, may be publicly sold by such holder of Restricted Stock under the provisions of Rule 144(k) of the Securities Act and (3) the Company shall have the right to defer initiation of any offering process for a single period of not more than ninety (90) days after receipt of the request of the holders of Restricted Stock requesting registration under this Section 4, if the Company shall furnish to such holders a certificate signed by the President or Chief Executive Officer of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such registration statement to be filed, provided that such right to delay a request shall be exercised by the Company no more than once in any one-year period.

5. PIGGYBACK REGISTRATION. If the Company at any time (other than pursuant to Section 4 or Section 6) proposes to register any of its securities under the Securities Act for sale to the public, whether for its own account or for the account of other security holders or both (except with respect to registration statements on Forms S-4, S-8 or another form not available for registering the Restricted Stock for sale to the public relating solely to the sale of securities to participants in a Company stock plan, or a registration on

any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Restricted Stock), each such time it will give written notice to all holders of outstanding Restricted Stock of its intention so to do. Upon the written request of any such holder, received by the Company within 30 days after the giving of any such notice by the Company, to register any of its Restricted Stock, the Company will use its best efforts to cause the Restricted Stock as to which registration shall have been so requested to be included in the securities to be covered by the registration statement proposed to be filed by the Company, all to the extent requisite to permit the sale or other disposition by the holder (in accordance with its written request) of such Restricted Stock so registered. In the event that any registration pursuant to this Section 5 shall be, in whole or in part, an underwritten public offering of Common Stock, the number of shares of Restricted Stock to be included in such an underwriting may be reduced (first pro rata among the Founders based upon the number of shares of Restricted Stock held by such Founders and next, pro rata among the requesting holders (excluding the Founders) based upon the number of shares of Restricted Stock held by such other requesting holders) if and to the extent that the managing underwriter shall be of the opinion that such inclusion would adversely affect the marketing of the securities to be sold by the Company therein, provided, however, that such number of shares of Restricted Stock held by the Founders or such other requesting holders shall not be reduced if any shares are to be included in such underwriting for the account of any person other than the Company, the Founders or such other requesting holders of Restricted Stock, provided, further, that in no event shall the number of shares of Restricted Stock included in the offering be reduced below twenty percent (20%) of the total number of shares of Common Stock included in such offering, unless the offering is the Company's initial public offering of the Company's securities in which

case the number of shares of Restricted Stock to be included by the holders may be reduced or eliminated entirely as set forth above. Notwithstanding the foregoing provisions, the Company may withdraw any registration statement referred to in this Section 5 without thereby incurring any liability to the holders of Restricted Stock.

6. REGISTRATION ON FORM S-3. Subject to the limit of one registration hereunder in any 12 month period, if at any time (i) a holder or holders of Restricted Stock (excluding the Founders) then outstanding request that the Company file a registration statement on Form S-3 or any successor thereto for a public offering of all or any portion of the shares of Restricted Stock held by such requesting holder or holders, the reasonably anticipated aggregate price to the public of which would exceed $500,000, and (ii) the Company is a registrant entitled to use Form S-3 or any successor thereto to register such shares, then the Company shall use its best efforts to register under the Securities Act on Form S-3 or any successor thereto, for public sale in accordance with the method of disposition specified in such notice, the number of shares of Restricted Stock specified in such notice. Whenever the Company is required by this Section 6 to use its best efforts to effect the registration of Restricted Stock, each of the procedures and requirements of Section 4 (including but not limited to the requirement that the Company notify all holders of Restricted Stock from whom notice has not been received and provide them with the opportunity to participate in the offering) shall apply to such registration, provided, however, that except as provided above there shall be no limitation on the number of registrations on Form S-3 that may be requested and obtained under this Section 6; and provided further, that the Company shall have the right to defer initiation of any filing of such a Form S-3 for a single period of not more than ninety (90) days after receipt of the request of the holders of Restricted Stock requesting registration under this Section 6, if the Company shall furnish to such holders a certificate signed by the President or Chief Executive Officer of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such registration statement to be filed, provided that such right to delay a request shall be exercised by the Company no more than once in any one-year period.

7. REGISTRATION PROCEDURES. If and whenever the Company is required by the provisions of Sections 4, 5 or 6 to use its best efforts to effect the registration of any shares of Restricted Stock under the Securities Act, the Company will, as expeditiously as possible:

a. prepare and file with the Commission a registration statement (which, in the case of an underwritten public offering pursuant to Section 4, shall be on Form S-1 or other form of general applicability satisfactory to the managing underwriter selected as therein provided) with respect to such securities and use its best efforts to cause such registration statement to become and remain effective for the period of the distribution contemplated thereby (determined as hereinafter provided);

b. prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for the period specified in paragraph (a) above and comply with the provisions of the Securities Act with respect to the disposition of all Restricted Stock covered by such registration statement in accordance with the sellers' intended method of disposition set forth in such registration statement for such period;

c. furnish to each seller of Restricted Stock and to each underwriter such number of copies of the registration statement and each such amendment and supplement thereto (in each case including all exhibits) and the prospectus included therein (including each preliminary prospectus) as such

persons reasonably may request in order to facilitate the public sale or other disposition of the Restricted Stock covered by such registration statement;

d. use its best efforts to register or qualify the Restricted Stock covered by such registration statement under the securities or "blue sky" laws of such jurisdictions as the sellers of Restricted Stock or, in the case of an underwritten public offering, the managing underwriter reasonably shall request, provided, however, that the Company shall not for any such purpose be required to qualify generally to transact business as a foreign corporation in any jurisdiction where it is not so qualified or to consent to general service of process in any such jurisdiction;

e. use its best efforts to list the Restricted Stock covered by such registration statement with any securities exchange on which the Common Stock of the Company is then listed;

f. immediately notify each seller of Restricted Stock and each underwriter under such registration statement, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event of which the Company has knowledge as a result of which the prospectus contained in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing, and promptly prepare and furnish to such seller a reasonable number of copies of a prospectus supplemented or amended so that, as thereafter delivered to the purchasers of such Restricted Stock, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

g. if the offering is underwritten and at the request of any seller of Restricted Stock, use its best efforts to furnish on the date that Restricted Stock is delivered to the underwriters for sale pursuant to such registration: (i) an opinion dated such date of counsel representing the Company for the purposes of such registration, addressed to the underwriters and to such seller, to such effect as reasonably may be requested by counsel for the underwriters, and (ii) a letter dated such date from the independent public accountants retained by the Company, addressed to the underwriters and to such seller, stating that they are independent public accountants within the meaning of the Securities Act and that, in the opinion of such accountants, the financial statements of the Company included in the registration statement or the prospectus, or any amendment or supplement thereof, comply as to form in all material respects with the applicable accounting requirements of the Securities Act, and such letter shall additionally cover such other financial matters (including information as to the period ending no more than five business days prior to the date of such letter) with respect to such registration as such underwriters reasonably may request;

h. make available for inspection by each seller of Restricted

Stock, any underwriter participating in any distribution pursuant to such registration statement, and any attorney, accountant or other agent retained by such seller or underwriter, reasonable access to all financial and other records, pertinent corporate documents and properties of the Company, as such parties may reasonably request, and cause the Company's officers, directors and employees to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such registration statement;

i. cooperate with the selling holders of Restricted Stock and the managing underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Restricted Stock to be sold, such certificates to be in such denominations and registered in such names as such holders

or the managing underwriters may request at least two business days prior to any sale of Restricted Stock; and

j. permit any holder of Restricted Stock which holder reasonably believes, after consultation with its counsel, that it might be deemed to be a controlling person of the Company, to participate in good faith in the preparation of such registration or comparable statement and to require the insertion therein of material, furnished to the Company in writing, which in the reasonable judgment of such holder after consultation with counsel, should be included.

For purposes of Section 7(a) and 7(b) and of Section 4(c), the period of distribution of Restricted Stock in a firm commitment underwritten public offering shall be deemed to extend until each underwriter has completed the distribution of all securities purchased by it, and the period of distribution of Restricted Stock in any other registration shall be deemed to extend until the earlier of the sale of all Restricted Stock covered thereby and 120 days after the effective date thereof.

In connection with each registration hereunder, the sellers of Restricted Stock will furnish to the Company in writing such information requested by the Company with respect to themselves and the proposed distribution by them as reasonably shall be necessary in order to assure compliance with federal and applicable state securities laws.

In connection with each registration pursuant to Sections 4, 5 or 6 covering an underwritten public offering, the Company and each seller agree to enter into a written agreement with the managing underwriter(s) selected in the manner herein provided in such form and containing such provisions as are customary in the securities business for such an arrangement between such underwriter and companies of the Company's size and investment stature.

8. EXPENSES. All expenses incurred by the Company in complying with Sections 4, 5 and 6, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel and independent public accountants for the Company, fees and expenses (including counsel fees) incurred in connection with complying with state securities or "blue sky" laws, fees of the National Association of Securities Dealers, Inc., transfer taxes, fees of transfer agents and registrars, costs of any insurance which might be obtained, and fees and disbursements of one counsel for the sellers of Restricted Stock (which fees and disbursements of such counsel shall not exceed in the aggregate $15,000), but excluding any Selling Expenses, are called "Registration Expenses". All underwriting discounts and selling commissions applicable to the sale of Restricted Stock are called "Selling Expenses".

The Company will pay all Registration Expenses in connection with each registration statement under Sections 4, 5 or 6. All Selling Expenses in connection with each registration statement under Sections 4, 5 or 6 shall be borne by the participating sellers in proportion to the number of shares sold by each, or by such participating sellers other than the Company (except to the extent the Company shall be a seller) as they may agree.

9. INDEMNIFICATION.

a. In the event of a registration of any of the Restricted Stock under the Securities Act pursuant to Sections 4, 5 or 6, the Company will indemnify and hold harmless each seller of such Restricted Stock thereunder, its partners, officers and directors, each underwriter of such Restricted Stock thereunder and each other person, if any, who controls such seller or underwriter within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which such seller, officer, director, underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such Restricted Stock was registered under the Securities Act pursuant to Sections 4, 5 or 6, any preliminary prospectus or final prospectus contained therein, but excluding any untrue statement or alleged untrue statement in any preliminary prospectus which is effectively cured by a later amendment or supplement thereof (a "Registration Statement"); (ii) any blue sky application or other document executed by the Company specifically for that purpose or based upon written information furnished by the Company filed in any state or other jurisdiction in order to qualify any or all of the Restricted Stock under the securities laws thereof (any such application, document or information herein called a "Blue Sky Application"), (iii) the omission or alleged omission to state in a Registration Statement or a Blue Sky Application a material fact required to be stated in a Registration Statement or a Blue Sky Application or necessary to make the statements in a Registration Statement or a Blue Sky Application not misleading, (iv) any violation by the Company or its agents of the Securities Act, the Exchange Act, any state securities laws or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law applicable to the Company or its agents and relating to action or inaction required of the Company in connection with such registration, or (v) any failure to register or qualify the Restricted Stock in any state where the Company or its agents has affirmatively undertaken or agreed in writing that the Company (the undertaking of any underwriter chosen by the Company being attributed to the Company) will undertake such registration or qualification on the seller=s behalf (provided that in such instance the Company shall not be so liable if it has undertaken its best efforts to so register or qualify the Restricted Stock) and will reimburse each such seller, and such officer and director, each such underwriter and each such controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action, provided, however, that the Company will not be liable in any such case if and to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by any such seller, any affiliate of such seller, any such underwriter or any such controlling person in writing specifically for use in such registration statement or prospectus.

b. In the event of a registration of any of the Restricted Stock under the Securities Act pursuant to Sections 4, 5 or 6, each seller of such Restricted Stock thereunder, severally and not jointly, will indemnify and hold harmless the Company, each person, if any, who controls the Company within the meaning of the Securities Act, each officer of the Company who signs the registration statement, each director of the Company, each other seller of Restricted Stock, each underwriter and each person who controls any underwriter within the meaning of the Securities Act, against all losses, claims, damages or liabilities, joint or several, to which the Company or such officer, director, other seller, underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the registration statement under which such Restricted Stock was registered under the Securities Act pursuant to Sections 4, 5 or 6, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereof, or any Blue Sky Application or arise out of or are based upon the omission or alleged omission to state

therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and each such officer, director, other seller, underwriter and controlling person

for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action, provided, however, that such seller will be liable hereunder in any such case if and only to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with information pertaining to such seller, as such, furnished in writing to the Company by such seller specifically for use in such registration statement or prospectus, and provided, further, however, that the liability of each seller hereunder shall be limited to the net proceeds received by such seller from the sale of Restricted Stock covered by such registration statement.

c. Promptly after receipt by an indemnified party hereunder of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party hereunder, notify the indemnifying party in writing thereof, but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to such indemnified party other than under this Section 9 and shall only relieve it from any liability which it may have to such indemnified party under this Section 9 if and to the extent the indemnifying party is prejudiced by such omission. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel satisfactory to such indemnified party, and, after notice from the indemnifying party to such indemnified party of its election so to assume and undertake the defense thereof, the indemnifying party shall not be liable to such indemnified party under this Section 9 for any legal expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation and of liaison with counsel so selected, provided, however, that, if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that the interests of the indemnified party reasonably may be deemed to conflict with the interests of the indemnifying party, the indemnified party shall have the right to select a separate counsel and to assume such legal defenses and otherwise to participate in the defense of such action, with the expenses and fees of such separate counsel and other expenses related to such participation to be reimbursed by the indemnifying party as incurred.

d. The indemnities provided in this Section 9 shall survive the transfer of any Restricted Stock by such holder.

e. The obligations of the Company and each seller of Restricted Stock under this Section 9 shall survive completion of any offering of Restricted Stock in a registration statement and the termination of this Agreement. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

10. CHANGES IN COMMON STOCK OR PREFERRED STOCK. If, and as often as, there is any change in the Common Stock or the Preferred Stock by way of a stock split, stock dividend, combination or reclassification, or through a merger, consolidation, reorganization or recapitalization, or by any other means, appropriate adjustment shall be made in the provisions hereof so that the rights and privileges

granted hereby shall continue with respect to the Common Stock or the Preferred Stock as so changed.

11. RULE 144 REPORTING. With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Restricted Stock to the public without registration, at all times after 90 days after any registration statement covering a public offering of securities of the Company under the Securities Act shall have become effective, the Company agrees to:

a. make and keep public information available, as those terms

are understood and defined in Rule 144 or any similar or analogous rule promulgated under the Securities Act;

b. use its best efforts to file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

c. furnish to each holder of Restricted Stock forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of such Rule 144 and of the Securities Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed by the Company as such holder may reasonably request in availing itself of any rule or regulation of the Commission allowing such holder to sell any Restricted Stock without registration.

12. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company represents and warrants to you as follows:

a. The execution, delivery and performance of this Agreement by the Company have been duly authorized by all requisite corporate action and will not violate any provision of law, any order of any court or other agency of government, the Fourth Amended and Restated Articles of Incorporation or Bylaws of the Company or any provision of any indenture, agreement or other instrument to which it or any or its properties or assets is bound, conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any such indenture, agreement or other instrument or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Company.

b. This Agreement has been duly executed and delivered by the Company and constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms, except to the extent, the indemnification provisions herein may be deemed not enforceable.

13. MISCELLANEOUS.

a. All covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto (including without limitation transferees of any Preferred Stock or Restricted Stock), whether so expressed or not, provided, however, that registration rights conferred herein on the holders of Preferred Stock or Restricted Stock shall only inure to the benefit of a transferee of Preferred Stock or Restricted Stock if (i) there is transferred to such transferee at least 20% of the total shares of Restricted Stock originally issued to the holder to the direct or indirect transferor of such transferee or (ii) such transferee is a partner, shareholder or affiliate of a party hereto.

b. All notices, requests, consents and other communications hereunder shall be in writing and shall be mailed by certified or registered mail, return receipt requested, postage prepaid, or telexed, in the case of non-U.S. residents, addressed as follows:

if to the Company or a Purchaser, at the address of such party set forth on the signature pages hereto;

if to any other holder of Preferred Stock or Restricted Stock, to it at such address as may be from time to time reflected in the stock books of the Company;

or, in any case, at such other address or addresses as shall have been furnished in writing to the Company in accordance with the provisions of this paragraph.

c. This Agreement shall be construed and enforced in accordance with and governed by the Oregon Business Corporation Act as to matters within the scope thereof, and as to all other matters shall be governed by and construed in accordance with the internal laws of the State of Oregon.

d. This Agreement may not be amended or modified, and no

provision hereof may be waived, except by the written consent of the Company and the holders of at least a majority of the outstanding shares of Restricted Stock, which in every event must include the holders of at least 46% of the outstanding Conversion Shares. Notwithstanding the foregoing, no such amendment or modification shall be effective if and to the extent that such amendment or modification either (a) creates any additional affirmative obligations to be complied with by any or all of the Purchasers or (b) grants to any one or more Purchasers any rights more favorable than any rights granted to all other Purchasers or otherwise treats any one or more Purchasers differently than all other Purchasers unless the Company shall have received the written consent of all of the Purchasers.

e. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

f. The obligations of the Company to register shares of Restricted Stock under Sections 4, 5 or 6 shall terminate five years after completion of an underwritten public offering of shares of Common Stock in which the net proceeds received by the Company shall be at least $10 million.

g. If requested in writing by the underwriters, and only with respect to the initial underwritten public offering of securities of the Company, each holder of Restricted Stock who is a party to this Agreement shall agree not to sell publicly any shares of Restricted Stock or any other shares of Common Stock (other than shares of Restricted Stock or other shares of Common Stock being registered in such offering), without the consent of such underwriters, for a period of not more than 180 days following the effective date of the registration statement relating to such offering; provided, however, that all persons entitled to registration rights with respect to shares of Common Stock who are not parties to this Agreement and all executive officers and directors of the Company shall also have agreed to enter into similar agreements. Without limiting the foregoing, it is expressly agreed that the provisions of this Section 13(g) shall not apply to any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock acquired by a holder of Restricted Stock (other than a

Founder) directly from the underwriters in a registered public offering of the Company's securities or in an established trading market from any party other than the Company.

h. The Company shall not grant to any third party any registration rights more favorable than any of those contained herein, so long as any of the registration rights under this Agreement remains in effect unless such grant is extended on the same terms to all holders of Restricted Stock.

i. If any provision of this Agreement shall be held to be illegal, invalid or unenforceable, such illegality, invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render illegal, invalid or unenforceable any other provision of this Agreement, and this Agreement shall be carried out as if any such illegal, invalid or unenforceable provision were not contained herein. This Agreement amends by superseding in its entirety that certain Second Amended Registration Rights Agreement dated as of May 28, 1999 by and among the Company, its Founders and the Investors, and becomes effective when signed by a majority in interest of the signatories of that agreement.

Please indicate your acceptance of the foregoing by signing and returning the enclosed counterpart of this letter, whereupon this Agreement shall be a binding agreement between the Company and you.

Very truly yours,

Pixelworks, Inc. Address: PIXELWORKS, INC.

7700 S.W. Mohawk St.
Tualatin, Oregon 97062

By: /s/ Allen H. Alley
Name: Allen H. Alley
Title: President & CEO

AGREED TO AND ACCEPTED as of the date
first above written.

FOUNDERS:

/s/ Allen H. Alley
Allen H. Alley

/s/ Michael G. West
Michael G. West

/s/ Kenneth Hunkins
Kenneth Hunkins

/s/ Robert Y. Greenberg
Robert Y. Greenberg

/s/ Bradley A. Zenger
Bradley A. Zenger

AGREED TO AND ACCEPTED as of the date
first above written.

ANALOG DEVICES, INC.
Purchaser Name (Print)

By: /s/ William A. Martin
Name: William A. Martin
Title: Treasurer

Address: Three Technology Way
Norwood, MA 02082

SIGNATURE PAGE FOR PIXELWORKS, INC. THIRD AMENDED REGISTRATION RIGHTS AGREEMENT

Please indicate your acceptance of the foregoing by signing and returning the enclosed counterpart of this letter, whereupon this Agreement shall be a binding agreement between the Company and you.

Very truly yours,

Pixelworks, Inc. Address:

PIXELWORKS, INC.

7700 S.W. Mohawk St.
Tualatin, Oregon 97062

By:
Name:
Title:

AGREED TO AND ACCEPTED as of the date
first above written.

FOUNDERS:

Allen H. Alley

Michael G. West

Kenneth Hunkins

Robert Y. Greenberg

Bradley A. Zenger

AGREED TO AND ACCEPTED as of the date
first above written.

SANYO NORTH AMERICA CORPORATION
Purchaser Name (Print)

By: /s/ Hideki Yamagata

Name: Hideki Yamagata

Title: Senior Vice President

Address: 2055 Sanyo Avenue,
San Diego, CA 92154

SIGNATURE PAGE FOR PIXELWORKS, INC. THIRD AMENDED REGISTRATION RIGHTS AGREEMENT

Please indicate your acceptance of the foregoing by signing and returning the enclosed counterpart of this letter, whereupon this Agreement shall be a binding agreement between the Company and you.

Very truly yours,

Pixelworks, Inc. Address:

7700 S.W. Mohawk St.
Tualatin, Oregon 97062

PIXELWORKS, INC.

By: /s/ Allen H. Alley

Name: Allen H. Alley

Title: President & CEO

AGREED TO AND ACCEPTED as of the date
first above written.

FOUNDERS:

/s/ Allen H. Alley

Allen H. Alley

/s/ Michael G. West

Michael G. West

/s/ Kenneth Hunkins

Kenneth Hunkins

/s/ Robert Y. Greenberg

Robert Y. Greenberg

Bradley A. Zenger

AGREED TO AND ACCEPTED as of the date
first above written.

TOSHIBA AMERICA ELECTRONIC COMPONENTS, INC.
Purchaser Name (Print)

By: /s/ Hideo Ito

Name: Hideo Ito

Title: Chairman & CEO

Address: 9775 Toledo Way
Irvine, CA 92618

SIGNATURE PAGE FOR PIXELWORKS, INC. THIRD AMENDED REGISTRATION RIGHTS AGREEMENT

Please indicate your acceptance of the foregoing by signing and returning the enclosed counterpart of this letter, whereupon this Agreement shall be a binding agreement between the Company and you.

Very truly yours,

Pixelworks, Inc. Address:

7700 S.W. Mohawk St.
Tualatin, Oregon 97062

PIXELWORKS, INC.

By: /s/ Allen H. Alley

Name: Allen H. Alley

Title: President & CEO

AGREED TO AND ACCEPTED as of the date first above written.

FOUNDERS:

/s/ Allen H. Alley
Allen H. Alley

/s/ Michael G. West
Michael G. West

/s/ Kenneth Hunkins
Kenneth Hunkins

/s/ Robert Y. Greenberg
Robert Y. Greenberg

Bradley A. Zenger

AGREED TO AND ACCEPTED as of the date first above written.

SEIKO EPSON CORPORATION
Purchaser Name (Print)

By: /s/ Katsuya Imaya

Name: Katsuya Imaya

Title: Managing Director

Address: 3-5, Onya 3-chome, Suwa-shi,
Nagano-ken, 392-8502 Japan

SIGNATURE PAGE FOR PIXELWORKS, INC. THIRD AMENDED REGISTRATION RIGHTS AGREEMENT

Please indicate your acceptance of the foregoing by signing and returning the enclosed counterpart of this letter, whereupon this Agreement shall be a binding agreement between the Company and you.

Very truly yours,

Pixelworks, Inc. Address:

PIXELWORKS, INC.

7700 S.W. Mohawk St.
Tualatin, Oregon 97062

By: _____
Name: _____
Title: _____

AGREED TO AND ACCEPTED as of the date first above written.

FOUNDERS:

_____
Allen H. Alley

_____
Michael G. West

_____
Kenneth Hunkins

_____
Robert Y. Greenberg

_____
Bradley A. Zenger

AGREED TO AND ACCEPTED as of the date first above written.

VIEWSONIC CORPORATION
Purchaser Name (Print)

By: /s/ Jeremiah R. Kanaly
Name: Jeremiah R. Kanaly
Title: Chief Financial Officer

Address: 381 Brea Canyon Road
Walnut, California 91789

SIGNATURE PAGE FOR PIXELWORKS, INC. THIRD AMENDED REGISTRATION RIGHTS AGREEMENT

Please indicate your acceptance of the foregoing by signing and returning the enclosed counterpart of this letter, whereupon this Agreement shall be a binding agreement between the Company and you.

Very truly yours,

Pixelworks, Inc. Address:

PIXELWORKS, INC.

7700 S.W. Mohawk St.
Tualatin, Oregon 97062

By: /s/ Allen H. Alley
Name: Allen H. Alley
Title: President & CEO

AGREED TO AND ACCEPTED as of the date
first above written.

FOUNDERS:

/s/ Allen H. Alley
Allen H. Alley

/s/ Michael G. West
Michael G. West

/s/ Kenneth Hunkins
Kenneth Hunkins

/s/ Robert Y. Greenberg
Robert Y. Greenberg

Bradley A. Zenger

AGREED TO AND ACCEPTED as of the date
first above written.

CPQ Holdings, Inc.
Purchaser Name (Print)

By: /s/ Michael J. Winkler
Name: Michael J. Winkler
Title: Vice President

Address: 20555 SH 249
Houston, TX 77070-2698

SIGNATURE PAGE FOR PIXELWORKS, INC. THIRD AMENDED REGISTRATION RIGHTS
AGREEMENT

EXHIBIT A

Battery Ventures IV, L.P.
Battery Investment Partners IV, LLC
20 William Street
Wellesley, MA 02181
Attn: Oliver D. Curme

Enterprise Development Fund II
425 North Main Street
Ann Arbor, MI 48104
Attn: Mary L. Campbell

Sequoia Capital VII
Sequoia Technology Partners VII
SQP 1997
Sequoia 1997 LLC
Sequoia International Partners
Sequoia Capital Franchise Fund
Sequoia Capital Franchise Partners
3000 Sand Hill Road
Building 4, Suite 280
Menlo Park, CA 94025
Attn: Barbara Russell

Timark L.P.
c/o Frank Marshall
14585 Big Basin Way
Saratoga, CA 95070

Stanford University
2770 Sand Hill Road
Menlo Park, CA 94025
Attn: Carol Gilmer

Charter Growth Capital, L.P.
Charter Growth Capital Co-Investment
  Fund, L.P.
CGC Investors, L.P.
525 University Avenue, Suite 1400
Palo Alto, CA 94301
Attn: Kevin McQuillan

EXHIBIT 10.1

INDEMNITY AGREEMENT

This Indemnity Agreement (the "Agreement") is entered into as of _____, 2000 (the "Effective Date") by and between Pixelworks, Inc., an Oregon corporation (the "Corporation"), and _____ ("Indemnitee"), an officer [a director] of the Corporation.

RECITALS

A. It is essential to the Corporation to retain and attract as directors and officers the most capable persons available. The Corporation, however, is aware that the increase in corporate litigation subjects directors and officers to expensive litigation risks resulting from their service to the Corporation.

B. It continues to be the express policy of the Corporation to indemnify its directors and officers so as to provide them with the maximum possible protection permitted by law from the costs and expenses of such litigation risks. Additionally, the Corporation's Fifth Amended and Restated Articles of Incorporation and First Restated Bylaws require it to indemnify its officers and directors to the fullest extent permitted by the Oregon Business Corporation Act (the "Act"), which contemplates that contracts may be entered into between the Corporation and its Directors and officers with respect to indemnification.

C. The Corporation desires and has requested the Indemnitee to serve or continue to serve as a director or officer free from undue concern for claims for damages arising out of or related to such services to the Corporation.

THEREFORE, the Corporation and Indemnitee agree as follows:

1. AGREEMENT TO SERVE. Indemnitee agrees to serve or continue to serve as a director or officer of the Corporation for so long as Indemnitee is duly elected or appointed or until Indemnitee tenders a resignation in writing.

2. DEFINITIONS. As used in this Agreement:

(a) The term "Proceeding" shall include any threatened, pending or completed action, suit or completed action, suit or proceeding, whether brought in the right of the Corporation or otherwise and whether of a civil, criminal, administrative or investigative nature, in which Indemnitee may be or may have been involved as a party or otherwise by reason of the fact that Indemnitee is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation,

partnership, joint venture, trust or other enterprise, whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification or reimbursement can be provided under this Agreement.

(b) The term "Expenses" includes, without limitation, expense of investigations, judicial or administrative proceedings or appeals, attorneys' fees and disbursements and any expenses of establishing a right to indemnification under Section 11 of this Agreement, but shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(c) References to "other enterprise" shall include employee benefit plans; references to "fines" shall include any excise tax assessed with respect to any employee benefit plan; references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an

employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner reasonably believed to be in the interest of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Agreement.

3. INDEMNITY IN THIRD-PARTY PROCEEDINGS. The Corporation shall indemnify Indemnitee in accordance with the provisions of this Section 3 if Indemnitee is a party to or threatened to be made a party to any Proceeding (other than a Proceeding by or in the right of the Corporation to procure a judgment in its favor) against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee in connection with such Proceeding, but only if Indemnitee acted in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation and, in the case of a criminal proceeding, in addition, had no reasonable cause to believe that Indemnitee's conduct was unlawful.

4. INDEMNITY IN PROCEEDINGS BY OR IN THE RIGHT OF THE CORPORATION. The Corporation shall indemnify Indemnitee in accordance with the provisions of this Section 4 if Indemnitee is a party to or threatened to be made a party to any Proceeding by or in the right of the Corporation to procure a judgment in its favor against all Expenses actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such Proceeding, but only if Indemnitee acted in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, except that no indemnification for Expenses shall be made under this Section 4 in respect of any claim, issue or matter as to which such person shall have been finally adjudged by a court to be liable to the Corporation, unless and only to the extent that any court in which such Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity.

5. INDEMNIFICATION OF EXPENSES OF SUCCESSFUL PARTY. Notwithstanding any other provisions of this Agreement, to the extent that Indemnitee has been successful, on the merits or otherwise, in defense of any Proceeding or in defense of any claim, issue or matter therein, including the dismissal of an action without prejudice, Indemnitee shall be indemnified against all Expenses incurred in connection therewith.

6. ADDITIONAL INDEMNIFICATION.

(a) Notwithstanding any limitation in Sections 3, 4 or 5, the Corporation shall indemnify Indemnitee to the fullest extent permitted by law if Indemnitee is a party to or threatened to be made a party to any Proceeding (including a Proceeding by or in the right of the Corporation to procure a judgment in its favor) against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee in connection with such Proceeding, provided that no indemnity shall be made under this Section 6(a) on account of Indemnitee's conduct which constitutes a breach of Indemnitee's duty of loyalty to the Corporation or its stockholders or is an act or omission not in good faith or which involves intentional misconduct or a knowing violation of the law.

(b) Notwithstanding any limitation in Sections 3, 4 or 5, the Corporation shall indemnify Indemnitee to the fullest extent permitted by law if Indemnitee is a party to or threatened to be made a party to any Proceeding (including a Proceeding by or in the right of the Corporation to procure a judgment in its favor) against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee in connection with such Proceeding.

(c) For purposes of Sections 6(a) and Sections 6(b), the meaning of the phrase "to the fullest extent permitted by law" shall include, but not be limited to:

(i) to the fullest extent permitted by the provision of the Act that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the Act, and

(ii) to the fullest extent authorized or permitted by any amendments to or replacements of the Act adopted after the date of this Agreement that increase the extent to which a corporation may indemnify its officers and directors.

7. EXCLUSIONS. Notwithstanding any provision in this Agreement, the Corporation shall not be obligated under this Agreement to make any indemnity in connection with any claim made against Indemnitee:

(a) for which payment has actually been made to or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount paid under such insurance or other indemnity provision;

(b) for any transaction from which Indemnitee derived an improper personal benefit;

(c) for an accounting of profits made from the purchase and sale by Indemnitee of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law;

(d) if a court having jurisdiction in the matter shall finally determine that such indemnification is not lawful under any applicable statute or public policy (and, in this respect, both the Corporation and Indemnitee have been advised that the Securities and Exchange Commission believes that indemnification for liabilities arising under the federal securities laws is against public policy and is, therefore, unenforceable and that claims for indemnification should be submitted to appropriate courts for adjudication); or

(e) in connection with any Proceeding (or part thereof) initiated by Indemnitee, or any Proceeding by Indemnitee against the Corporation or its directors, officers, employees or other indemnitees, unless (i) such indemnification is expressly required to be made by law, (ii) the Proceeding was authorized by the Board of Directors of the Corporation, (iii) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under applicable law, or (iv) the Proceeding is initiated pursuant to Section 11 hereof and Indemnitee is successful in whole or in part in such Proceeding.

8. ADVANCES OF EXPENSES. The Expenses incurred by Indemnitee in any Proceeding shall be paid by the Corporation in advance at the written request of Indemnitee, if Indemnitee:

(a) furnishes the Corporation a written affirmation of the Indemnitee's good faith belief that Indemnitee is entitled to be indemnified by the Corporation under this Agreement; and

(b) furnishes the Corporation a written undertaking to repay such advance to the extent that it is ultimately determined by a court that Indemnitee is not entitled to be indemnified by the Corporation. Such advances shall be made without regard to Indemnitee's ability to repay such expenses and without regard to Indemnitee's ultimate entitlement to indemnification under the other provisions of this Agreement.

9. NOTIFICATION AND DEFENSE OF CLAIM. Not later than twenty (20) days after receipt by Indemnitee of notice of the commencement of any Proceeding, Indemnitee will, if a claim in respect thereof is to be made against the Corporation under this Agreement, notify the Corporation of the commencement thereof; provided, however, that the omission to notify the Corporation will not relieve the Corporation from any liability which it may have to Indemnitee

otherwise than under this Agreement. With respect to any such Proceeding as to which Indemnitee notifies the Corporation of the commencement thereof:

(a) The Corporation will be entitled to participate therein at its own expense.

(b) Except as otherwise provided below, the Corporation may, at its option and jointly with any other indemnifying party similarly notified and electing to assume such defense, assume the defense thereof, with legal counsel reasonably satisfactory to Indemnitee. Indemnitee shall have the right to employ separate counsel in such Proceeding, but the Corporation shall not be liable to Indemnitee under this Agreement, including Section 8 hereof, for the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense, unless (i) Indemnitee reasonably concludes that there may be a conflict of interest between the Corporation and Indemnitee in the conduct of the defense of such Proceeding or (ii) the Corporation does not employ counsel to assume the defense of such Proceeding. The Corporation shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Corporation or as to which Indemnitee shall have made the conclusion provided for in (i) above.

(c) If two or more persons who may be entitled to indemnification from the Corporation, including the Indemnitee, are parties to any Proceeding, the Corporation may require Indemnitee to engage the same legal counsel as the other parties. Indemnitee shall have the right to employ separate legal counsel in such Proceeding, but the Corporation shall not be liable to Indemnitee under this Agreement, including Section 8 hereof, for the fees and expenses of such counsel incurred after notice from the Corporation of the requirement to engage the same counsel as other parties, unless the Indemnitee reasonably concludes that there may be a conflict of interest between Indemnitee and any of the other parties required by the Corporation to be represented by the same legal counsel.

(d) The Corporation shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding effected without its written consent, which shall not be unreasonably withheld. The Corporation shall be permitted to settle any Proceeding the defense of which it assumes, except the Corporation shall not settle any action or claim in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent, which may be given or withheld in Indemnitee's sole discretion.

10. PROCEDURE UPON APPLICATION FOR INDEMNIFICATION. Any indemnification under Sections 3, 4, 5 or 6 of this Agreement shall be made no later than 90 days after receipt of the written request of Indemnitee for such indemnification and shall not require that a determination be made in accordance with the Act by the persons specified in the Act that indemnification is required under this Agreement; provided, however, that, unless it is ordered by a court in an enforcement action under Section 11 of this Agreement, no such indemnification shall be made if a determination is made within such 90-day period by (a) the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such Proceeding, or (b) independent

legal counsel in a written opinion (which counsel shall be appointed if such a quorum is not obtainable), that the Indemnitee is not entitled to indemnification under this Agreement.

11. ENFORCEMENT. Any right to indemnification or advances granted by this Agreement to Indemnitee shall be enforceable by or on behalf of Indemnitee in any court of competent jurisdiction if (i) the claim for indemnification or advances is denied, in whole or in part, or (ii) no disposition of such claim is made within 90 days of a written request therefor. Indemnitee, in such enforcement action, if successful in whole or in part, shall be entitled to be paid also the expense of prosecuting the claim. It shall be a defense to any such enforcement action (other than an action brought to enforce a claim for advancement of expenses pursuant to Section 8 hereof if the required affirmation and undertaking have been tendered to the Corporation) that Indemnitee is not entitled to indemnification under this Agreement, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors or its shareholders) to make a

determination prior to the commencement of such enforcement action that indemnification of Indemnitee is proper in the circumstances, nor an actual determination by the Corporation (including its Board of Directors or its shareholders) that such indemnification is improper shall be a defense to the action or create a presumption that Indemnitee is not entitled to indemnification under this Agreement or otherwise. The termination of any Proceeding by judgment, order of court, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not, of itself, create a presumption that Indemnitee is not entitled to indemnification under this Agreement or otherwise.

12. PARTIAL INDEMNIFICATION. If Indemnitee is entitled under any provisions of this Agreement to indemnification by the Corporation for some or a portion of the Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee in the investigation, defense, appeal or settlement of any Proceeding but not, however, for the total amount thereof, the Corporation shall indemnify Indemnitee for the portion of such Expenses, judgments, fines and amounts paid in settlement to which Indemnitee is entitled.

13. NON-EXCLUSIVITY AND CONTINUITY OF RIGHTS. The indemnification provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may be entitled under the articles of incorporation, the bylaws, any other agreement, any vote of shareholders or directors, the Act, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while holding such office. The indemnification under this Agreement shall continue as to Indemnitee even though Indemnitee ceases to be a director or officer and shall inure to the benefit of the heirs and personal representatives of Indemnitee.

14. SEVERABILITY. If this Agreement or any portion thereof is invalidated on any ground by any court of competent jurisdiction, the Corporation shall indemnify Indemnitee as to Expenses, judgments, fines and amounts paid in settlement with respect to any Proceeding to the full extent permitted by any applicable portion of this Agreement that is not invalidated or by any other applicable law.

15. SUBROGATION. In the event of payment under this Agreement, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts necessary to secure such rights and to enable the Corporation effectively to bring suit to enforce such rights.

16. MODIFICATION AND WAIVER. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

17. NOTICES. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given (i) if delivered by hand and receipted for by the party to whom the notice or other communication was sent, or (ii) if mailed by certified or registered mail with postage prepaid on the third business day after deposit into the United States mail:

(a) If to Indemnitee, at the address indicated on the signature page hereof.

(b) If to the Corporation, to:

Pixelworks, Inc.
7700 SW Mohawk
Tualatin, OR 972
Attn: Chief Executive Officer
Telephone: (503) 612-6700
Facsimile: (503) 612-6713

With a copy to:

William C. Campbell, Esq.

Ater Wynne LLP
222 SW Columbia, Suite 1800
Portland, OR 97201
Telephone: (503) 226-1191
Facsimile: (503) 226-0079

or to such other address as may have been furnished to Indemnitee by the Corporation.

18. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall constitute the original.

19. APPLICABLE LAW; JURISDICTION. This Agreement will be governed by and construed in accordance with the law of the State of Oregon. The parties agree that the U.S. District Court for the District of Oregon, or the Circuit Court of Multnomah County, Oregon will be the exclusive venue and shall have exclusive jurisdiction over any action at law relating to the subject matter or interpretation of this Agreement. The parties have considered all relevant factors relating to venue and jurisdiction with their respective counsel and have concluded that the courts of Oregon are the only appropriate choice for any litigation by and between the parties.

20. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon the Corporation, its successors and assigns.

INDEMNITEE

PIXELWORKS, INC.

By:_____
Title:_____

(Print Name)

Address:_____

EXHIBIT 10.2

PIXELWORKS, INC.

1997 STOCK INCENTIVE PLAN

1. PURPOSES OF THE PLAN. The purposes of this Stock Incentive Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to the Employees and Consultants of the Company and to promote the success of the Company's business.

Options granted hereunder may be either "incentive stock options," as defined in Section 422 of the Internal Revenue Code of 1986, as amended, or "nonqualified stock options," at the discretion of the Board and as reflected in the terms of the written option agreement. In addition, shares of the Company's Common Stock may be Sold hereunder independent of any Option grant.

2. DEFINITIONS. As used herein, the following definitions shall apply:

(a) "ADMINISTRATOR" shall mean the Board or any of its Committees as shall be administering the Plan, in accordance with Section 4.(a) of the Plan.

(b) "BOARD" shall mean the Board of Directors of the Company.

(c) "CODE" shall mean the Internal Revenue Code of 1986, as amended.

(d) "COMMITTEE" shall mean a committee appointed by the Board in accordance with Section 4.(a) of the Plan.

(e) "COMMON STOCK" shall mean the Common Stock of the Company.

(f) "COMPANY" shall mean Pixelworks, Inc. an Oregon corporation.

(g) "CONSULTANT" shall mean any person who is engaged by the Company or any Parent or Subsidiary to render consulting services and is compensated for such consulting services and any Director of the Company whether compensated for such services or not.

(h) "CONTINUOUS STATUS AS AN EMPLOYEE OR CONSULTANT" shall mean the absence of any interruption or termination of service as an Employee or Consultant. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of: (i) any sick leave, military leave, or any other leave of absence approved by the Company ; provided, however, that for purposes of Incentive Stock Options, any such leave is for a period of not more than ninety days or reemployment upon the expiration of such leave is guaranteed by contract or statute, provided, further, that on the ninety-first day of such leave (where re-employment is not guaranteed by contract or statute) the Optionee's Incentive Stock Option shall automatically convert to a Nonqualified Stock Option; or (ii) transfers between locations of the Company or between the Company, its Parent, its Subsidiaries or its successor.

(i) "DIRECTOR" shall mean a member of the Board.

(j) "DISABILITY" shall mean total and permanent disability as defined in Section 22(e)(3) of the Code.

(k) "EMPLOYEE" shall mean any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary. Neither the payment of a director's fee by the Company nor service as a Director shall be sufficient to constitute "employment" by the Company.

(l) "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

(m) "INCENTIVE STOCK OPTION" shall mean an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(n) "NONQUALIFIED STOCK OPTION" shall mean an Option not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(o) "NOTICE OF GRANT" shall mean a written notice evidencing certain terms and conditions of an individual Option grant. The Notice of Grant is part of the Option Agreement.

(p) "OFFICER" shall mean a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(q) "OPTION" shall mean a stock option granted pursuant to the Plan.

(r) "OPTION AGREEMENT" shall mean a written agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(s) "OPTIONED STOCK" shall mean the Common Stock subject to an Option.

(t) "OPTIONEE" shall mean an Employee or Consultant who receives an Option.

(u) "PARENT" shall mean a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(v) "PLAN" shall mean this 1997 Stock Incentive Plan.

(w) "RULE 16b-3" shall mean Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(x) "SALE" or "SOLD" shall include, with respect to the sale of Shares under the Plan, the sale of Shares for consideration in the form of cash or notes, as well as a grant of Shares for consideration in the form of past or future services.

(y) "SHARE" shall mean a share of the Common Stock, as adjusted in accordance with Section 11 of the Plan.

(z) "SUBSIDIARY" shall mean a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. STOCK SUBJECT TO THE PLAN. Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of Shares which may be optioned and/or Sold under the Plan is 9,226,744 shares of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future Option grants and/or Sales under the Plan; provided, however, that Shares that have actually been issued under the Plan shall not be returned to the Plan and shall not become available for future distribution under the Plan.

4. ADMINISTRATION OF THE PLAN.

(a) PROCEDURE.

(i) MULTIPLE ADMINISTRATIVE BODIES. If permitted by Rule 16b-3, the Plan may be administered by different bodies with respect to Directors, Officers who are not Directors, and Employees who are neither Directors nor Officers.

(ii) ADMINISTRATION WITH RESPECT TO DIRECTORS AND OFFICERS SUBJECT TO SECTION 16(b). With respect to Option grants made to Employees who are also Officers or Directors subject to Section 16(b) of the Exchange Act, the Plan shall be administered by (A) the Board, if the Board may administer the Plan in compliance with the rules governing a plan intended to qualify as a discretionary plan under Rule 16b-3, or (B) a Committee designated by the Board to administer the Plan, which Committee shall be constituted to comply with the rules, if any, governing a plan intended to qualify as a discretionary plan under Rule 16b-3. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and substitute new members, fill vacancies (however caused), and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the rules, if any, governing a plan intended to qualify as a discretionary plan under Rule 16b-3. With respect to persons subject to Section 16 of the Exchange Act, transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of the Plan or action by the Administrator fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Administrator.

(iii) ADMINISTRATION WITH RESPECT TO OTHER PERSONS. With respect to Option grants made to Employees or Consultants who are neither Directors nor Officers of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted to satisfy the legal requirements relating to the administration of stock option plans under applicable corporate and securities laws and the Code. Once appointed, such Committee shall serve in its designated capacity until otherwise directed by the Board. The Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and substitute new members, fill vacancies (however caused), and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the legal requirements relating to the administration of stock option plans under state corporate and securities laws and the Code.

(b) POWERS OF THE ADMINISTRATOR. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to grant Incentive Stock Options in accordance with Section 422 of the Code, or Nonqualified Stock Options;

(ii) to authorize Sales of Shares of Common Stock hereunder;

(iii) to determine, upon review of relevant information and in accordance with Section 8.(b) of the Plan, the fair market value of the Common Stock;

(iv) to determine the exercise/purchase price per Share of Options to be granted or Shares to be Sold, which exercise/purchase price shall be determined in accordance with Section 8.(a) of the Plan;

(v) to determine the Employees or Consultants to whom, and the time or times at which, Options shall be granted and the number of Shares to be represented by each Option;

(vi) to determine the Employees or Consultants to whom, and the time or times at which, Shares shall be Sold and the number of Shares to be Sold;

(vii) to interpret the Plan;

(viii) to prescribe, amend and rescind rules and regulations relating to the Plan;

(ix) to determine the terms and provisions of each Option granted (which need not be identical) and, with the consent of the holder thereof, modify or amend each Option;

(x) to determine the terms and provisions of each Sale of Shares (which need not be identical) and, with the consent of the purchaser thereof, modify or amend each Sale;

(xi) to accelerate or defer (with the consent of the Optionee) the exercise date of any Option;

(xii) to accelerate or defer (with the consent of the Optionee or purchaser of Shares) the vesting restrictions applicable to Shares Sold under the Plan or pursuant to Options granted under the Plan;

(xiii) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option or Sale of Shares previously granted or authorized by the Board;

(xiv) to determine the restrictions on transfer, vesting restrictions, repurchase rights, or other restrictions applicable to Shares issued under the Plan;

(xv) to effect, at any time and from time to time, with the consent of the affected Optionees, the cancellation of any or all outstanding Options under the Plan and to grant in substitution

therefor new Options under the Plan covering the same or different numbers of Shares, but having an Option price per Share consistent with the provisions of Section 8 of this Plan as of the date of the new Option grant;

(xvi) to establish, on a case-by-case basis, different terms and conditions pertaining to exercise or vesting rights upon termination of employment, whether at the time of an Option grant or Sale of Shares, or thereafter;

(xvii) to approve forms of agreement for use under the Plan;

(xviii) to reduce the exercise price of any Option to the then current fair market value if the fair market value of the Common Stock covered by such Option shall have declined since the date the Option was granted;

(xix) to determine whether and under what circumstances an Option may be settled in cash under subsection 9(f) instead of Common Stock; and

(xx) to make all other determinations deemed necessary or advisable for the administration of the Plan.

(c) EFFECT OF ADMINISTRATOR'S DECISION. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options granted under the Plan or Shares Sold under the Plan.

5. ELIGIBILITY.

(a) PERSONS ELIGIBLE. Options may be granted and/or Shares Sold only to Employees and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Option or Sold Shares may, if he or she is otherwise eligible, be granted an additional Option or Options or Sold additional Shares.

(b) ISO LIMITATION. To the extent that the aggregate fair market value: (i) of Shares subject to an Optionee's Incentive Stock Options granted by the Company, any Parent or Subsidiary, which (ii) become exercisable for the first time during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds $100,000, such excess Options shall be treated as Nonqualified Stock Options. For purposes of this Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were

granted, and the fair market value of the Shares shall be determined as of the time of grant.

(c) SECTION 5.(b) LIMITATIONS. Section 5.(b) of the Plan shall apply only to an Incentive Stock Option evidenced by an Option Agreement which sets forth the intention of the Company and the Optionee that such Option shall qualify as an Incentive Stock Option. Section 5.(b) of the Plan shall not apply to any Option evidenced by a Option Agreement which sets forth the intention of the Company and the Optionee that such Option shall be a Nonqualified Stock Option.

(d) NO RIGHT TO CONTINUED EMPLOYMENT. The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his employment or consulting relationship at any time, with or without cause.

(e) OTHER LIMITATIONS. The following limitations shall apply to grants of Options to Employees:

(i) No Employee shall be granted, in any fiscal year of the Company, Options to purchase more than 300,000 Shares.

(ii) In connection with his or her initial employment, an Employee may be granted Options to purchase up to an additional 300,000 Shares which shall not count against the limit set forth in subsection (i) above.

(iii) The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 11.

(iv) If an Option is canceled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 11), the canceled Option shall be counted against the limits set forth in subsections (i) and (ii) above. For this purpose, if the exercise price of an Option is reduced, the transaction will be treated as a cancellation of the Option and the grant of a new Option.

6. TERM OF PLAN. The Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the shareholders of the Company as described in Section 17 of the Plan. It shall continue in effect for a term of ten (10) years, unless sooner terminated under Section 13 of the Plan.

7. TERM OF OPTION. The term of each Option shall be stated in the Notice of Grant; provided, however, that in the case of an Incentive Stock Option, the term shall be ten (10) years from the date of grant or such shorter term as may be provided in the Notice of Grant. However, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Notice of Grant.

8. EXERCISE/PURCHASE PRICE AND CONSIDERATION.

(a) EXERCISE/PURCHASE PRICE. The per-Share exercise/purchase price for the Shares to be issued pursuant to exercise of an Option or a Sale shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than one

hundred ten percent (110%) of the fair market value per Share on the date of the grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than one hundred percent (100%) of the fair market value per Share on the date of grant.

(ii) In the case of a Nonqualified Stock Option or Sale, the per Share exercise/purchase price shall be determined by the Administrator.

(iii) Any determination to establish an Option exercise price or effect a Sale of Common Stock at less than fair market value on the date of the Option grant or authorization of Sale shall be accompanied by an express finding by the Administrator specifying that the sale is in the best interest of the Company, and specifying both the fair market value and the Option exercise price or Sale price of the Common Stock.

(b) FAIR MARKET VALUE. The fair market value per Share shall be determined by the Administrator in its discretion; provided, however, that where there is a public market for the Common Stock, the fair market value per Share shall be the closing price of the Common Stock (or the closing bid if no sales were reported) for the last market trading day prior to the date of grant of the Option or authorization of Sale or other determination, as reported in THE WALL STREET JOURNAL (or, if not so reported, as otherwise reported by the National Association of Securities Dealers Automated Quotation (NASDAQ) System) or, in the event the Common Stock is listed on a stock exchange, the fair market value per Share shall be the closing price on such exchange for the last market trading day prior to the date of grant of the Option or authorization of Sale or other determination, as reported in THE WALL STREET JOURNAL.

(c) CONSIDERATION. The consideration to be paid for the Shares to be issued upon exercise of an Option or pursuant to a Sale, including the method of payment, shall be determined by the Administrator. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such consideration may consist of:

(i) cash;

(ii) check;

(iii) promissory note;

(iv) transfer to the Company of Shares which

(A) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six months on the date of surrender, and

(B) have a fair market value on the date of surrender equal to the aggregate exercise price of the Shares to be acquired;

(v) delivery of a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company the amount of sale or loan proceeds required to pay the exercise price;

(vi) such other consideration and method of payment for the issuance of Shares to the extent permitted by legal requirements relating to the administration of stock option plans and issuances of capital stock under applicable corporate and securities laws and the Code; or

(vii) any combination of the foregoing methods of payment.

If the fair market value of the number of whole Shares transferred or the number of whole Shares surrendered is less than the total exercise price of the Option, the shortfall must be made up in cash or by check. Notwithstanding the foregoing provisions of this Section 8.(c), the consideration for Shares to be

issued pursuant to a Sale may not include, in whole or in part, the consideration set forth in subsections (iv) and (v) above.

9. EXERCISE OF OPTION.

(a) PROCEDURE FOR EXERCISE; RIGHTS AS A SHAREHOLDER. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Administrator, consist of any consideration and method of payment allowable under the Option Agreement and Section 8.(c) of the Plan. Each Optionee who exercises an Option shall, upon notification of the amount due (if any) and prior to or concurrent with delivery of the certificate representing the Shares, pay to the Company amounts necessary to satisfy applicable federal, state and local tax withholding requirements. An Optionee must also provide a duly executed copy of any stock transfer agreement then in effect and determined to be applicable by the Administrator. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock represented by such stock certificate, notwithstanding the exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) TERMINATION OF EMPLOYMENT OR CONSULTING RELATIONSHIP. In the event that an Optionee's Continuous Status as an Employee or Consultant terminates (other than upon the Optionee's death or Disability), the Optionee may exercise his or her Option, but only within such period of time as is determined by the Administrator, and only to the extent that the Optionee was entitled to exercise it at the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant). In the case of an Incentive Stock Option, the Administrator shall determine such period of time (in no event to exceed three (3) months from the date of termination) when the Option is granted. If, at the date of termination, the Optionee is not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option with the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) DISABILITY OF OPTIONEE. In the event that an Optionee's Continuous Status as an Employee or Consultant terminates as a result of the Optionee's Disability, the Optionee may exercise his or her Option at any time within twelve (12) months from the date of such termination, but only to the extent that the Optionee was entitled to exercise it at the date of such termination (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant). If, at the date of termination, the Optionee is not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) DEATH OF OPTIONEE. In the event of the death of an Optionee, the Option may be exercised at any time within twelve (12) months

following the date of death (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the Optionee was entitled to exercise the Option at the date of death. If, at the time of death, the Optionee was not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after death, the Optionee's estate or a person who acquired the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) RULE 16b-3. Options granted to persons subject to Section 16(b) of the Exchange Act must comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

(f) BUYOUT PROVISIONS. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Option previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. NONTRANSFERABILITY OF OPTIONS. Except as otherwise specifically provided in the Option Agreement, an Option may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will, or by the laws of descent and distribution, and may be exercised during the lifetime of the Optionee only by the Optionee or, if incapacitated, by his or her legal guardian or legal representative.

11. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION OR MERGER.

(a) CHANGES IN CAPITALIZATION: Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options have yet been granted or Sales made or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such

adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

(b) DISSOLUTION OR LIQUIDATION. In the event of the proposed dissolution or liquidation of the Company, each outstanding Option will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Administrator. The Administrator may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Board and give each Optionee the right to exercise his or her Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable.

(c) MERGER OR ASSET SALE. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each outstanding Option shall be assumed or an equivalent option shall be substituted by such successor corporation or a Parent or Subsidiary of such successor corporation, unless the Administrator determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the Optionee shall have the right to

exercise the Option as to all of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable. If the Administrator makes an Option fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee that the Option shall be fully exercisable for a period of thirty (30) days from the date of such notice or such shorter period as the Administrator may specify in the notice, and the Option will terminate upon the expiration of such period. For the purposes of this paragraph, the Option shall be considered assumed if, following the merger or sale of assets, the Option confers the right to purchase, for each Share of Optioned Stock subject to the Option immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets was not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation and the Optionee, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

12. TIME OF GRANTING OPTIONS. The date of grant of an Option shall, for all purposes, be the date on which the Administrator makes the determination granting such Option. Notice of the determination shall be given to each Optionee within a reasonable time after the date of such grant.

13. AMENDMENT AND TERMINATION OF THE PLAN.

(a) AMENDMENT AND TERMINATION. The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable.

(b) SHAREHOLDER APPROVAL. The Company shall obtain shareholder approval of any Plan amendment to the extent necessary and desirable to comply with Rule 16b-3 or with Section 422 of the Code

(or any successor rule or statute or other applicable law, rule or regulation, including the requirements of any exchange or quotation system on which the Common Stock is listed or quoted). Such shareholder approval, if required, shall be obtained in such a manner and to such a degree as is required by the applicable law, rule or regulation.

(c) EFFECT OF AMENDMENT OR TERMINATION. Any such amendment or termination of the Plan shall not affect Options already granted, and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

14. CONDITIONS UPON ISSUANCE OF SHARES. Shares shall not be issued pursuant to the exercise of an Option or a Sale unless the exercise of such Option or consummation of the Sale and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, applicable state securities laws, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange (including NASDAQ) upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

15. RESERVATION OF SHARES. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

16. LIABILITY OF COMPANY.

(a) INABILITY TO OBTAIN AUTHORITY. Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority

is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

As a condition to the exercise of an Option or a Sale, the Company may require the person exercising such Option or to whom Shares are being Sold to represent and warrant at the time of any such exercise or Sale that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

(b) GRANTS EXCEEDING ALLOTTED SHARES. If the Optioned Stock covered by an Option exceeds, as of the date of grant, the number of Shares which may be issued under the Plan without additional shareholder approval, such Option shall be void with respect to such excess Optioned Stock, unless shareholder approval of an amendment sufficiently increasing the number of Shares subject to the Plan is timely obtained in accordance with Section 13 of the Plan.

17. SHAREHOLDER APPROVAL. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the manner and to the degree required under applicable federal and state law.

EXHIBIT 10.3

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT dated August 14,1998, between SILICON VALLEY BANK ("Bank"), whose address is 3003 Tasman Drive, Santa Clara, California 95054 with a loan production office located at 11000 SW Stratus, Ste. 170, Beaverton, Oregon 97008-7113 and PIXELWORKS, INC. ("Borrower"), whose address is 8100 SW Nyberg Road, Suite 100, Tualatin, Oregon 97062, provides the terms on which Bank will lend to Borrower and Borrower will repay Bank. The parties agree as follows:

1. ACCOUNTING AND OTHER TERMS

Accounting terms not defined in this Agreement will be construed following GAAP Calculations and determinations must be made following GAAP. The term "financial statements" includes the notes and schedules. The terms "including" and "includes" always mean "including (or includes) without limitation," in this or any Loan Document. This Agreement shall be construed to impart upon Bank a duty to act reasonably at all times.

2. LOAN AND TERMS OF PAYMENT

2.1 CREDIT EXTENSIONS.

Borrower will pay Bank the unpaid principal amount of all Credit Extensions and interest on the unpaid principal amount of the Credit Extensions.

2.1.1 EQUIPMENT ADVANCES.

(a) Through February 15, 1999 (the "Equipment Availability End Date"), Bank will make advances ("Equipment Advance" and, collectively, "Equipment Advances") not exceeding the Committed Equipment Line. The Equipment Advances may only be used to finance Equipment and may not exceed 100% of the equipment invoice excluding taxes, shipping, warranty charges, freight discounts and installation expense. Software may constitute up to 100% of the aggregate Equipment Advances.

(b) Interest accrues from the date of each Equipment Advance at the rate in Section 2.2(a) and is payable monthly until the Equipment Availability End Date occurs. Equipment Advances outstanding on the Equipment Availability End Date are payable in 36 equal monthly installments of principal, plus accrued interest, beginning on the 15th of each month following the Equipment Availability End Date and ending on February 15, 2002 (the "Equipment Maturity Date"). Equipment Advances when repaid may not be reborrowed.

(c) To obtain an Equipment Advance, Borrower must notify Bank (the notice is irrevocable) by facsimile no later than 3:00 p.m. Pacific time 1 Business Day before the day on which the Equipment Advance is to be made. The notice in the form of Exhibit B (Payment/Advance Form) must be signed by a Responsible Officer or designee and include a copy of the invoice for the Equipment being financed.

(d) The Committed Equipment Line terminates on the Equipment Maturity Date, when all Obligations under this Agreement have been satisfied in full.

2.2 INTEREST RATE, PAYMENTS.

(a) Interest Rate. Equipment Advances accrue interest on the outstanding principal balance at a per (a) annum rate of 0.5 percentage points above the Prime Rate. After an Event of Default Obligations accrue interest at 5 percent above the rate effective immediately before the Event of Default. The interest rate increases or decreases when the Prime Rate changes. Interest is computed on a 360 day year for the actual number of days elapsed.

(b) Payments. Interest due on the Equipment Advances is payable on the 16th of each month. Bank may debit any of Borrower's deposit accounts including Account Number 3300044668 for principal and interest payments or any amounts Borrower owes Bank. Bank will notify Borrower when it debits Borrowers accounts. These debits are not a set-off. Payments received after 12:00 noon Pacific time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment is due

the next Business Day and additional fees or interest accrue.

2.3 FEES.

Borrower will pay:

(a) Facility Fee. A fully earned, non-refundable Facility Fee of $2,500 due on the Closing Date; and

(b) Bank Expenses. All Bank Expenses (including reasonable attorneys' fees and expenses) incurred through and after the date of this Agreement, are payable when due.

2.4 EARLY TERMINATION.

Borrower may terminate this agreement prior to the Equipment Maturity Date by giving notice to Bank and by paying in full all Obligations owing under this Agreement.

3. CONDITIONS OF LOANS

3.1 CONDITIONS PRECEDENT TO INITIAL CREDIT EXTENSION.

Bank's obligation to make the initial Credit Extension is subject to the condition precedent that it receive the agreements, documents and fees it requires.

3.2 CONDITIONS PRECEDENT TO ALL CREDIT EXTENSIONS.

Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following:

(a) timely receipt of any Payment/Advance Form; and

(b) the representations and warranties in Section 5 must be materially true on the date of the Payment/Advance Form and on the effective date of each Credit Extension and no Event of Default may have occurred and be continuing, or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties of Section 5 remain true.

4. CREATION OF SECURITY INTEREST

4.1 GRANT OF SECURITY INTEREST.

Borrower grants Bank a continuing security interest in all presently existing and later acquired Collateral to secure all Obligations and performance of each of Borrower's duties under the Loan Documents. Except for Permitted Liens, any security interest will be a first priority security interest in the Collateral. If the Agreement is terminated, Bank's lien and security interest in the Collateral will continue until Borrower fully satisfies its Obligations, at which time Bank's security interest in the Collateral shall terminate and Bank shall file the necessary termination statements.

5. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1 DUE ORGANIZATION AND AUTHORIZATION.

Borrower and each Subsidiary is duly existing and in good standing in Its state of formation and qualified and licensed to do business in, and in good standing in, any state in which the conduct of its business or its ownership of property requires that it be qualified.

The execution, delivery and performance of the Loan Documents have been duly authorized, and do not conflict with Borrower's formation documents, nor constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which or by which it is bound in which the default could cause a Material Adverse Change.

5.2 COLLATERAL.

Borrower has good Ole to the Collateral, free of Liens except Permitted Liens. All Inventory is in all material respects of good and marketable quality, free from material defects.

5.3 LITIGATION.

Except as shown in the Schedule, there are no actions or proceedings pending or, to Borrower's knowledge, threatened by or against Borrower or any Subsidiary in which an adverse decision could cause a Material Adverse Change.

5.4 NO MATERIAL ADVERSE CHANGE IN FINANCIAL STATEMENTS.

All consolidated financial statements for Borrower, and any Subsidiary, delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

5.5 SOLVENCY.

The fair salable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; the Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

5.6 REGULATORY COMPLIANCE.

Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations G, T and U of the Federal Reserve Board of Governors). Borrower has complied with the Federal Fair Labor Standards Act. Borrower has not violated any laws, ordinances or rules, the violation of which could cause a Material Adverse Change. None of Borrower's or any Subsidiary's properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each Subsidiary has timely filed all required tax returns and paid, or made adequate provision to pay, all taxes, except those being contested in good faith with adequate reserves under GAAP. Borrower and each Subsidiary has obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all government authorities that are necessary to continue its business as currently conducted.

5.7 SUBSIDIARIES.

Borrower does not own any stock, partnership interest or other equity securities except for Permitted Investments.

5.8 FULL DISCLOSURE.

No representation, warranty or other statement of Borrower in any certificate or written statement given to Bank contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading.

6. AFFIRMATIVE COVENANTS

Borrower will do all of the following:

6.1 GOVERNMENT COMPLIANCE.

Borrower will maintain its and all Subsidiaries' legal existence and good

standing in its jurisdiction of formation and maintain qualification in each jurisdiction in which the failure to so qualify could have a material adverse effect on Borrower's business or operations. Borrower will comply, and have each Subsidiary comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which could have a material adverse effect on Borrower's business or operations or cause a Material Adverse Change.

6.2 FINANCIAL STATEMENTS, REPORTS.

(a) Borrower will deliver to Bank: (i) as soon as available, but no later than 30 days after the last day of each month, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations during the period, in a form and certified by a Responsible Officer acceptable to Bank: (ii) as soon as available, but no later than 90 days after the last day of Borrower's fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm acceptable to Bank; (iii) a prompt report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of $100,000 or more; and (iv) budgets, sales projections, operating plans or other financial information Bank requests.

6.3 INVENTORY; RETURNS.

Borrower will keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower and its account debtors will follow Borrower's customary practices as they exist at execution of this Agreement. Borrower must

promptly notify Bank of all returns, recoveries, disputes and claims, that involve more than $50,000.

6.4 TAXES.

Borrower will make, and cause each Subsidiary to make, timely payment of all material federal, state, and local taxes or assessments and will deliver to Bank, on demand, appropriate certificates attesting to the payment.

6.5 INSURANCE.

Borrower will keep its business and the Collateral insured for risks and in amounts, as Bank requests. Insurance policies will be in a form, with companies, and in amounts that are satisfactory to Bank. All property policies will have a lender's loss payable endorsement showing Bank as an additional loss payee and all liability policies will show the Bank as an additional insured and provide that the insurer must give Bank at least 20 days notice before canceling its policy. At Bank's request, Borrower will deliver certified copies of policies and evidence of all premium payments. Proceeds payable under any policy will, at Bank's option, be payable to Bank on account of the Obligations. Statutory notice regarding insurance:

WARNING

Unless you provide us with evidence of the insurance coverage as required by our contract or loan agreement, we may purchase insurance at your expense to protect our interest This insurance may, but need not also protect your interest. If the collateral becomes damaged, the coverage we purchase may not pay any claim you make or any claim made against you. You may later cancel this coverage by providing evidence that you have obtained property coverage elsewhere.

You are responsible for the cost of any insurance purchased by us. The cost of this insurance may be added to your contract or loan balance. If the cost is added to your contract or loan balance, the interest rate on the underlying contract or loan will apply to this added amount The effective date of coverage may be the date your prior coverage lapsed or the date you failed to provide proof of coverage.

This coverage we purchased may be considerably more expensive than insurance you can obtain on your own and may not satisfy any need for property damage coverage or any mandatory liability insurance requirements imposed by

applicable law.

6.6 PRIMARY ACCOUNTS.

Borrower will maintain its primary depository and operating accounts with Bank.

6.7 FURTHER ASSURANCES.

Borrower will execute any further instruments and take further action as Bank requests to perfect or continue Bank's security interest in the Collateral or to effect the purposes of this Agreement

7. NEGATIVE COVENANTS

Borrower will not do any of the following:

7.1 DISPOSITIONS.

Convey, sell, lease, transfer or otherwise dispose of (collectively "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, other than Transfers (i) of Inventory in the ordinary course of business; (ii) of non-exclusive licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; or (iii) of worn-out or obsolete Equipment.

7.2 CHANGES IN BUSINESS, OWNERSHIP, MANAGEMENT OR BUSINESS LOCATIONS.

Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower or have a material change in its ownership of greater than 50%. Borrower will not without at least 30 days prior written notice, relocate its chief executive office or add any new offices or business locations.

7.3 MERGERS OR ACQUISITIONS.

(i) Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person, provided no Event of Default has occurred and is continuing or would result from such action during the term of this Agreement and result in a decrease of more than 25% of Tangible Net Worth; or (ii) merge or consolidate a Subsidiary into another Subsidiary or into Borrower.

7.4 INDEBTEDNESS.

Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

7.5 ENCUMBRANCE.

Create, incur, or allow any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so,

except for Permitted Liens, or permit any Collateral not to be subject to the first priority security interest granted here.

7.6 DISTRIBUTIONS; INVESTMENTS.

Directly or indirectly acquire or own any Person, or make any Investment In any Person, other than Permitted Investments, or permit any of its Subsidiaries to do so. Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock.

7.7 TRANSACTIONS WITH AFFILIATES.

Directly or indirectly enter or permit any material transaction with any Affiliate except transactions that are In the ordinary course of Borrowers business, on terms less favorable to Borrower than would be obtained in an arms length transaction with a non-affiliated Person.

7.8 SUBORDINATED DEBT.

Make or permit any payment on any Subordinated Debt, except under the terms of the Subordinated Debt or amend any provision in any document relating to the Subordinated Debt without Bank's prior written consent.

7.9 COMPLIANCE.

Become an "Investment company" or a company controlled by an "investment company," under the Investment Company Act of 1940 or undertake as one of its important activities extending credit to purchase or carry margin stock, or use the proceeds of any Advance for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur, fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could have a material adverse effect on Borrower's business or operations or cause a Material Adverse Change, or permit any of its Subsidiaries to do so.

8. EVENT OF DEFAULT

Any one of the following is an Event of Default:

8.1 PAYMENT DEFAULT.

If Borrower fails to pay any of the Obligations;

8.2 COVENANT DEFAULT.

If Borrower violates any covenant in Section 7 or does not perform or observe any other material term, condition or covenant in this Agreement, any Loan Documents, or in any agreement between Borrower and Bank and as to any default under a term, condition or covenant that can be cured, has not cured the default within 10 days after it occurs, or if the default cannot be cured within 10 days or cannot be cured after Borrower's attempts within 10 day period, and the default may be cured within a reasonable time, then Borrower has an additional period (of not more than 30 days) to attempt to cure the default. During the additional time, the failure to cure the default is not an Event of Default (but no Credit Extensions will be made during the cure period);

8.3 MATERIAL ADVERSE CHANGE.

(i) If there occurs a material impairment in the perfection or priority of the Bank's security interest in the Collateral or in the value of such Collateral which is not covered by adequate insurance or (ii) if the Bank determines, based upon information available to it and in its reasonable judgment, Borrower's financial condition has materially deteriorated.

8.4 ATTACHMENT.

If any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver and the attachment, seizure or levy is not removed in 20 days, or if Borrower is enjoined, restrained, or prevented by court order from conducting a material part of its business or if a judgment or other claim becomes a Lien on a material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed against any of Borrower's assets by any government agency and not paid within 20 days after Borrower receives notice. These are not Events of Default if stayed or if a bond is posted pending contest by Borrower (but no Credit Extensions will be made during the cure period);

8.5 INSOLVENCY.

If Borrower becomes Insolvent or if Borrower begins an Insolvency Proceeding or an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within 30 days (but no Credit Extensions will be made before any Insolvency Proceeding is dismissed);

8.6 OTHER AGREEMENTS.

If there is a default in any agreement between Borrower and a third party that gives the third party the right to accelerate any Indebtedness exceeding $100,000 or that could cause a Material Adverse Change;

8.7 JUDGMENT.

If a money judgment(s) in the aggregate of at least $50,000 is rendered against Borrower and is unsatisfied and unstayed for 20 days (but no Advances will be made before the judgment is stayed or satisfied);or

8.8 MISREPRESENTATIONS.

If Borrower or any Person acting for Borrower makes any material misrepresentation or material misstatement now or later in any warranty or representation in this Agreement or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document.

9. BANKS RIGHTS AND REMEDIES

9.1 RIGHTS AND REMEDIES.

When an Event of Default occurs and continues Bank may, without notice or demand, do any or all of the following:

(a) Declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);

(b) Stop advancing money or extending credit for Borrowers benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) Settle or adjust disputes and claims directly with account debtors for amounts, on terms and in any order that Bank considers advisable;

(d) Make any payments and do any acts it considers necessary or reasonable to protect its security interest in the Collateral. Borrower will assemble the Collateral if Bank requires and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(e) Apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) any amount held by Bank owing to or for the credit or the account of Borrower,

(f) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral; and

(g) Dispose of the Collateral according to the Code.

9.2 POWER OF ATTORNEY.

Effective only when an Event of Default occurs and continues, Borrower irrevocably appoints Bank as its lawful attorney to: (i) endorse Borrowers name on any checks or other forms of payment or security; (ii) sign Borrower's name on any invoice or bill of lading for any Account or draft against account debtors, (iii) make, settle, and adjust all claims under Borrowers insurance policies; (iv) settle and adjust disputes and claims about the Accounts directly with account debtors, for amounts and on terms Bank determines reasonable; and (v) transfer the Collateral into the name of Bank or a third party as the Code

permits. Bank may exercise the power of attorney to sign Borrowers name on any documents necessary to perfect or continue the perfection of any security interest regardless of whether an Event of Default has occurred. Bank's appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and Banks obligation to provide Credit Extensions terminates.

9.3 ACCOUNTS COLLECTION.

When an Event of Default occurs and continues, Bank may notify any Person owing Borrower money of Bank's security interest in the funds and verify the amount of the Account. Borrower must collect all payments in trust for Bank and, if requested by Bank, immediately deliver the payments to Bank in the form received from the account debtor, with proper endorsements for deposit.

9.4 BANK EXPENSES.

If Borrower falls to pay any amount or furnish any required proof of payment to third persons Bank may make all or part of the payment or obtain insurance policies required in Section 6.5, and take any action under the policies Bank deems prudent. Any amounts paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then applicable rate and secured by the Collateral. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

9.5 BANK'S LIABILITY FOR COLLATERAL.

If Bank complies with reasonable banking practices it is not liable for (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other person. Borrower bears all risk of loss, damage or destruction of the Collateral.

9.6 REMEDIES CUMULATIVE.

Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements are cumulative. Bank has all rights and remedies provided under the Code, by law, or

in equity. Bank's exercise of one right or remedy is not an election, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay is not a waiver, election, or acquiescence. No waiver is effective unless signed by Bank and then is only effective for the specific instance and purpose for which it was given.

9.7 DEMAND WAIVER.

Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which Borrower is liable.

10. NOTICES

All notices or demands by any party about this Agreement or any other related agreement must be in writing and be personally delivered or sent by an overnight delivery service, by certified mail, postage prepaid, return receipt requested, or by telefacsimile to the addresses set forth at the beginning of this Agreement. A Party may change its notice address by giving the other Party written notice.

11. CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER

Oregon law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Washington County, Oregon.

BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE

OF ACTION ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

12. GENERAL PROVISIONS

12.1 SUCCESSORS AND ASSIGNS.

This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights under it without Bank's prior written consent which may be granted or withheld in Bank's discretion. Bank has the right without the consent of or notice to Borrower, to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits under this Agreement.

12.2 INDEMNIFICATION.

Borrower will indemnify, defend and hold harmless Bank and its officers, employees, and agents against (a) all obligations, demands, claims, and liabilities asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or Bank Expenses incurred, or paid by Bank from, following, or consequential to transactions between Bank and Borrower (including reasonable attorneys fees and expenses), except for losses caused by Bank's gross negligence or willful misconduct.

12.3 TIME OF ESSENCE.

Time is of the essence for the performance of all obligations in this Agreement.

12.4 SEVERABILITY OF PROVISION.

Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.5 AMENDMENTS IN WRITING, INTEGRATION.

All amendments to this Agreement must be in writing and signed by Borrower and Bank. This Agreement represents the entire agreement about this subject matter, and supersedes prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement merge into this Agreement and the Loan Documents. UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY THE BANK AFTER OCTOBER 3,1989 CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY US TO BE ENFORCEABLE.

12.6 COUNTERPARTS.

This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, are an original, and all taken together, constitute one Agreement.

12.7 SURVIVAL.

All covenants, representations and warranties made in this Agreement continue in full force while any Obligations remain outstanding. The obligations of Borrower in Section 12.2 to indemnify Bank will survive until all statutes of limitations for actions that may be brought against Bank have run.

12.8 CONFIDENTIALITY.

In handling any confidential information, Bank will exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made (i) to Bank's subsidiaries or affiliates in connection with their business with Borrower, (ii) to prospective transferees or purchasers of any interest in the Loans, (iii) as required by law, regulation, subpoena, or other order, (iv) as required in connection with Bank's examination or audit and (v) as Bank considers appropriate exercising remedies under this Agreement. Confidential information does not include information that either (a) is in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain after disclosure to Bank; or (b) is disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

12.9 ATTORNEYS' FEES, COSTS AND EXPENSES.

In any action or proceeding between Borrower and Bank arising out of the Loan Documents, the prevailing party will be entitled to recover its reasonable attorneys' fees and other costs and expenses incurred, in addition to any other relief to which it may be entitled.

13. DEFINITIONS

13.1 DEFINITIONS.

In this Agreement:

"ACCOUNTS" are all existing and later arising accounts, contract rights, and other obligations owed Borrower in connection with its sale or lease of goods (including licensing software and other technology) or provision of services, all credit insurance, guaranties, other security and all merchandise returned or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"AFFILIATE" of a Person is a Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

"BANK EXPENSES" are all audit fees and expenses and reasonable costs or expenses (including reasonable attorneys' fees and expenses) for preparing, negotiating, administering, defending and enforcing the Loan Documents (including appeals or Insolvency Proceedings).

"BORROWER'S BOOKS" are all Borrower's books and records including ledgers, records regarding Borrowers assets or liabilities, the Collateral, business operations or financial condition and all computer programs or discs or any equipment containing the information.

"BUSINESS DAY" is any day that is not a Saturday, Sunday or a day on which the Bank is closed.

"CLOSING DATE" is the date of this Agreement.

"CODE" is the Oregon Uniform Commercial Code.

"COLLATERAL" is the property described on Exhibit A.

"COMMITTED EQUIPMENT LINE" is a Credit Extension of up to $1,500,000.

"CONTINGENT OBLIGATION" is, for any Person, any direct or indirect liability, contingent or not, of that Person for (i) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (ii) any obligations for undrawn letters of credit for the account of that Person; and (iii) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but "Contingent

Obligation" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under the guarantee or other support arrangement.

"CREDIT EXTENSION" is each Equipment Advance or any other extension of credit by Bank for Borrowers benefit.

"EQUIPMENT" is all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

"EQUIPMENT ADVANCE" is defined in Section 2.1.1.

"EQUIPMENT AVAILABILITY END DATE" is defined in Section 2.1.1.

"EQUIPMENT MATURITY DATE" is defined in Section 2.1.1.

"ERISA" is the Employment Retirement Income Security Act of 1974, and its regulations.

"GAAP" is generally accepted accounting principles.

"INDEBTEDNESS" is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations and (d) Contingent Obligations.

"INSOLVENCY PROCEEDING" are proceedings by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement or other relief.

"INVENTORY" is present and future inventory in which Borrower has any interest, including merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or later owned by or in the custody or possession, actual or constructive, of Borrower, including inventory temporarily out of its custody or possession or in transit and including returns on any accounts or other proceeds (including insurance proceeds) from the sale or disposition of any of the foregoing and any documents of title.

"INVESTMENT" is any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

"LIEN" is a mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"LOAN DOCUMENTS" are, collectively, this Agreement, any note, or notes or guaranties executed by Borrower or Guarantor, and any other present or future agreement between Borrower and/or for the benefit of Bank in connection with this Agreement, all as amended, extended or restated.

"MATERIAL ADVERSE CHANGE" is defined in Section 8.3.

"OBLIGATIONS" are debts, principal, interest, Bank Expenses and other amounts Borrower owes Bank now or later, including letters of credit and Exchange Contracts and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank.

"PERMITTED INDEBTEDNESS" is:

(a) Borrowers indebtedness to Bank under this Agreement or any other Loan Document;

(b) Indebtedness existing on the Closing Date and shown on the Schedule;

(c) Subordinated Debt;

(d) Indebtedness to trade creditors incurred in the ordinary course of business; and

(e) Indebtedness secured by Permitted Liens.

"PERMITTED INVESTMENTS" are:

(a) Investments shown on the Schedule and existing on the Closing Date; and

(b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States or its agency or any State maturing within 1 year from its acquisition, (ii) commercial paper maturing no more than 1 year after its creation and having the highest rating from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (iii) Bank's certificates of deposit issued maturing no more than 1 year after issue.

"PERMITTED LIENS" are:

(a) Liens existing on the Closing Date and shown on the Schedule or arising under this Agreement or other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either not delinquent or being contested in good faith and for which Borrower maintains adequate reserves on its Books, if they have no priority over any of Bank's security interests;

(c) Purchase money Liens (i) on Equipment acquired or held by Borrower or its Subsidiaries incurred for financing the acquisition of the Equipment, or (ii) existing on equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the equipment;

(d) Leases or subleases and licenses or sublicenses granted in the ordinary course of Borrower's business and any interest or title of a lessor, licensor or under any lease or license, if the leases, subleases, licenses and sublicenses permit granting Bank a security interest;

(e) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase.

"PERSON" is any individual, sole proprietorship, partnership, limited liability company, joint venture, company association, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"PRIME RATE" is the Prime Rate as published in the Money Rates section of the WALL STREET JOURNAL, or if such information is not published or unavailable, shall be Bank's most recently announced prime rate," even if it is not Bank's lowest rate.

"RESPONSIBLE OFFICER" is each of the Chief Executive Officer, the President, the Chief Financial Officer and the Controller of Borrower.

"SCHEDULE" is any attached schedule of exceptions.

"SUBORDINATED DEBT" is debt incurred by Borrower subordinated to Borrower's debt to Bank (and identified as subordinated by Borrower and Bank).

"SUBSIDIARY" is for any Person, or any other business entity of which

more than 50% of the voting stock or other equity Interests is owned or controlled, directly or indirectly, by the Person or one or more Affiliates of the Person.

BORROWER:

Pixelworks, Inc.

By: /s/ Allen H. Alley

Title: President and Chief Executive Officer

BANK:

SILICON VALLEY BANK

By: /s/ Bruce Helberg

Title: Vice President

EXHIBIT A

The Collateral consists of all of Borrower's right, title and interest in and to the following:

All goods and equipment now owned or hereafter acquired, including, without limitation, all machinery, fixtures, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;

All Inventory, now owned or hereafter acquired, including, without limitation, all merchandise, raw materials, parts, supplies. packing and shipping materials, work in process and finished products including such inventory as is temporarily out of Borrower's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above;

All contract rights and general intangibles now owned or hereafter acquired, including, without limitation, goodwill, servicemarks, trade styles, trade names, leases, license agreements, franchise agreements, blueprints, drawings, purchase orders, customer lists, route lists, infringements, claims, computer programs, computer discs, computer tapes, literature, reports, catalogs, design rights, income tax refunds, payments of insurance and rights to payment of any kind;

All now existing and hereafter arising accounts, contract rights, royalties, license rights and all other forms of obligations owing to Borrower arising out of the sale or lease of goods, the licensing of technology or the, rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower,

All documents, cash, deposit accounts, securities, securities entitlements, securities accounts, investment property, financial assets, letters of credit, certificates of deposit, instruments and chattel paper now owned or hereafter acquired and Borrower's Books relating to the foregoing: and

All Borrower's Books relating to the foregoing and any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof.

EXHIBIT 10.4

LOAN MODIFICATION AGREEMENT

This Loan Modification Agreement is entered into as of April 9, 1999, by and between Pixelworks, Inc. ("Borrower") and Silicon Valley Bank ("Bank").

1. DESCRIPTION OF EXISTING INDEBTEDNESS. Among other indebtedness which may be owing by Borrower to Bank, Borrower is indebted to Bank pursuant to, among other documents, a Loan and Security Agreement, dated August 14,1998, as may be amended from time to time (the "Loan Agreement"). The Loan Agreement provided for, among other things, a Committed Equipment Line in the original principal amount of One Million Five Hundred Dollars ($1,500,000). Defined terms used but not otherwise defined herein shall have the same meanings as in the Loan Agreement

Hereinafter, all indebtedness owing by Borrower to Bank shall be referred to as the "Indebtedness."

2. DESCRIPTION OF COLLATERAL AND GUARANTIES. Repayment of the Indebtedness is secured by the Collateral as described in the Loan Agreement. Additionally, Borrower has agreed not to mortgage, pledge, hypothecate, or otherwise encumber any of its Intellectual Property, pursuant to that certain Negative Pledge Agreement dated August 14, 1998.

Hereinafter, the above-described security documents and guaranties, together with all other documents securing repayment of the Indebtedness shall be referred to as the "Security Documents." Hereinafter, the Security Documents, together with all other documents evidencing or securing the Indebtedness shall be referred to as the "Existing Loan Documents."

3. DESCRIPTION OF CHANGE IN TERMS.

A. MODIFICATION(S) TO LOAN AGREEMENT

1. The following Sections are hereby incorporated into the Loan Agreement to read as follows:

2.1.2 REVOLVING ADVANCES.

(a) Bank will make Advances not exceeding (i) the Committed Revolving Line or the Borrowing Base, whichever is less, minus (ii) the amount of all outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit), and minus (iii) the Foreign Exchange Reserve. Amounts borrowed under this Section may be repaid and reborrowed during the term of this Agreement.

(b) To obtain an Advance, Borrower must notify Bank by facsimile or telephone by 3:00 p.m. Pacific time on the Business Day the Advance is to be made. Borrower must promptly confirm the notification by delivering to Bank the Payment/Advance Form attached as Exhibit B. Bank will credit Advances to Borrower's deposit account. Bank may make Advances under this Agreement based on instructions from a Responsible Officer or his or her designee or without instructions if the Advances are necessary to meet Obligations which have become due. Bank may rely on any telephone notice given by a person whom Bank believes is a Responsible Officer or designee. Borrower will indemnify Bank for any loss Bank suffers due to that reliance.

(c) The Committed Revolving Line terminates on the Revolving Maturity Date, when all Advances are immediately payable.

2.1.3 LETTERS OF CREDIT

Bank will issue or have issued Letters of Credit for Borrower's account not exceeding (i) the lesser of the Committed Revolving Line or the Borrowing Base minus (ii) the outstanding principal balance of the Advances, but the face amount of outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit and any Letter of Credit Reserve) may not

exceed $3,000,000. Each Letter of Credit will expire no later than one hundred eighty (180) days after the Revolving Maturity Date provided Borrower's Letter of Credit reimbursement obligation is secured by cash on terms acceptable to Bank at any time after the Revolving Maturity Date if the term of this Agreement is not extended by Bank.

2.1.4 FOREIGN EXCHANGE CONTRACT; FOREIGN EXCHANGE SETTLEMENTS.

Borrower may enter foreign exchange contracts (the "Exchange Contract") not exceeding an aggregate amount of $3,000,000 (the "Contract Limit"), under which Bank will sell to or purchase from Borrower foreign currency on a spot or future basis. Borrower may not request any Exchange Contracts if it is out of compliance with any provision of this Agreement. Exchange Contracts must provide for delivery of settlement on or before Revolving Maturity Date. The amount available under the Committed Revolving Line is reduced by the following (the "Foreign Exchange Reserve") on any given day (the "Determination Date"): (i) on all outstanding Exchange Contracts on which delivery is to be effected or settlement allowed more than two business days after the Determination Date, 10% of the gross amount of the Exchange Contracts; plus (ii) on all outstanding Exchange Contracts on which delivery is to be effected or settlement allowed within two business days after the Determination Date, 100% of the gross amount of the Exchange Contracts.

Bank may terminate the Exchange Contracts if (a) an Event of Default occurs or (b) there is not sufficient availability under the Committed Revolving Line and Borrower does not have available funds in its deposit account for the Foreign Exchange Reserve.

If Bank terminates the Exchange Contracts, Borrower will reimburse Bank for all fees, costs and expenses in connection with the Exchange Contracts.

Borrower may not permit the total of all Exchange Contracts on which delivery is to be effected and settlement allowed in any two business day period to be more than $3,000,000 (the "Settlement Limit") nor may Borrower permit the total of all Exchange Contracts outstanding at any one time, to exceed the Contract Limit. However, the amount which may be settled in any 2 business day period may be increased above the Settlement Limit if:

(i) there is sufficient availability under the Committed Revolving Line in the amount of the Foreign Exchange Reserve for each Determination Date, provided that Bank in advance shall reserve the full amount of the Foreign Exchange Reserve against the Committed Revolving Line; or

(ii) there is insufficient availability under the Committed Revolving Line for settlements within any 2 business day period, but Bank: (A) verifies good funds overseas before crediting Borrower's deposit account (in the case of Borrower's sale of foreign currency); or (B) debits Borrower's deposit account before delivering foreign currency overseas (in the case of Borrower's purchase of foreign currency).

If Borrower purchases foreign currency, Borrower must in advance instruct Bank either to treat the settlement as an advance under the Committed Revolving Line, or to debit Borrower's account for the amount settled.

Borrower will execute all Bank's standard applications and agreements in connection with the Exchange Contracts and pay all Bank's standard fees and charges.

Borrower will indemnity Bank and hold it harmless from all claims, liabilities, demands, obligations, actions, costs and expenses (including reasonable attorneys' fees) which it incurs arising out of or in any way relating to any of the Exchange Contracts or any contemplated transactions.

2.1.5 OVERADVANCES.

If Borrower's Obligations under Section 2.1.2, 2.1.3 and 2.1.4 exceed the lesser of either (i) the Committed Revolving Line or (ii) the Borrowing Base, Borrower must immediately pay in cash to Bank the excess.

6.8 FINANCIAL COVENANTS.

Borrower will maintain as of the last day of each month:

(i) QUICK RATIO. A ratio of Quick Assets to Current Liabilities of at least 1.00 to 1.00.

(ii) DEBT/NET WORTH RATIO. A ratio of Total Liabilities less Subordinated Debt to Tangible Net Worth plus Subordinated Debt of not more than 2.00 to 1.00.

(iii) TANGIBLE NET WORTH. A Tangible Net Worth of at least $3,700,000, decreasing to $2,900,000, beginning with the month ending July 31, 1999.

2. Sub-Sections (a) and (b) of Section 2.2 entitled "Interest rate, Payments" is hereby amended in its entirety to read as follows:

(a) Interest Rate. Advances accrue interest on the outstanding principal balance at a per annum rate 0.25 percentage points above the Prime Rate and Equipment Advances accrue interest on the outstanding principal balance at a per annum rate of 0.5 percentage points above the Prime Rate. After an Event of Default, Obligations accrue interest at 5 percent above the rate effective immediately before the Event of Default. The interest rate increases or decreases when the Prime Rate changes. Interest is computed on a 360 day year for the actual number of days elapsed.

(b) Payments. Interest due on the Equipment Advances is payable on the 15th of each month. Interest due on the Committed Revolving Line is payable the 8th of each month. Bank may debit any of Borrower's deposit accounts including Account Number 3300044668 for principal and interest payments or any amounts Borrower owes Bank. Bank will notify Borrower when it debits Borrower's accounts. These debits are not a set-off. Payment received after 12:00 noon Pacific time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment is due the next Business Day and additional fees or interest accrue.

3. Section 6.2 entitled "Financial Statements, Reports" is hereby amended in its entirety to read as follows:

(a) Borrower will deliver to Bank: (i) as soon as available, but no later than 30 days after the last day of each month, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations during the period, in a form acceptable to Bank and certified by a Responsible Officer; (ii) as soon as available, but no later than 120 days after the end of Borrower's fiscal year, audited, consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm acceptable to Bank (if such financial statements are not audited, then such non-audited financial statements together with copies of tax returns filed with Internal Revenue Services, for the year ended); (iii) a prompt report of any legal actions pending or threatened against Borrower or any Subsidiary that could

result in damages or costs to Borrower or any Subsidiary of $100,000 or more; and (iv) budgets, sales projections, operating plans or other financial information Bank requests.

(b) Within 20 days after the last day of each month, Borrower will deliver to Bank a Borrowing Base Certificate signed by a Responsible Officer in the form of Exhibit C, with aged listings of accounts receivable and accounts payable.

(c) Within 30 days after the last day of each month, Borrower will deliver to Bank with the monthly financial statements a Compliance Certificate signed by a Responsible Officer in the form of Exhibit D.

(d) Bank has the right to audit Borrower's Collateral at Borrower's expense, but the audits will be conducted after the initial Advance and if an Event of Default has occurred and is continuing.

4. The following definitions are hereby incorporated into Section 13.1 entitled "Definitions" to read as follows:

"ADVANCE" or "ADVANCES" is a loan advance (or advances) under the Committed Revolving Line.

"BORROWING BASE" is 80% of Eligible Accounts, as determined by Bank from Borrower's most recent Borrowing Base Certificate.

"COMMITTED REVOLVING LINE" is a Credit Extension of up to $3,000,000.

"CREDIT EXTENSION" is each Advance, Equipment Advance, Letter of Credit, Exchange Contract or any other extension of credit by Bank for Borrower's benefit.

"CURRENT ASSETS" are amounts that under GAAP should be included on that date as current assets on Borrower's consolidated balance sheet.

"CURRENT LIABILITIES" are the aggregate amount of Borrower's Total Liabilities which mature within one (1) year.

"ELIGIBLE ACCOUNTS" are Accounts in the ordinary course of Borrower's business that meet all Borrower's representations and warranties in Section 5.2; but Bank may change eligibility standards by giving Borrower notice. Unless Bank agrees otherwise in writing, Eligible Accounts will not include:

(a) Accounts that the account debtor has not paid within 90 days of invoice date;

(b) Accounts for an account debtor, 50% or more of whose Accounts have not been paid within 90 days of invoice date;

(c) Credit balances over 90 days from invoice date;

(d) Accounts for an account debtor, including Affiliates, whose total obligations to Borrower exceed 25% of all Accounts, except for Tokyo Electron Devices, for which the percentage may be 50% for the amounts that exceed that percentage through September 30, 1999, unless Bank approves in writing;

(e) Accounts for which the account debtor does not have its principal place of business in the United States except for Eligible Foreign Accounts;

(f) Accounts for which the account debtor is a federal, state or local government entity or any department, agency, or instrumentality;

(g) Accounts for which Borrower owes the account debtor, but only up to the amount owed (sometimes called "contra" accounts, accounts payable, customer deposits or credit accounts);

(h) Accounts for demonstration or promotional equipment, or in which goods are consigned, sales guaranteed, sale or return, sale on approval, bill and hold, or other terms if account debtor's payment may be conditional;

(i) Accounts for which the account debtor is Borrower's Affiliate, officer, employee, or agent;

(j) Accounts in which the account debtor disputes liability or makes any claim and Bank believes there may be a basis for dispute (but only up to the disputed or claimed amount), or if the Account Debtor is subject to an Insolvency Proceeding, or becomes insolvent, or goes out of business;

(k) Accounts for which Bank reasonably determines collection to be doubtful.

"ELIGIBLE FOREIGN ACCOUNTS" are (i) Phillips, Siemens and Tokyo Electron Devices, (ii) those Accounts for which the account debtor does not have its principal place of business in the United States but are supported by letter(s) of credit acceptable to Bank; or (iii) such other accounts that Bank approves in writing.

"QUICK ASSETS" is, on any date, the Borrower's consolidated, unrestricted cash, cash equivalents, net billed accounts receivable and investments with maturities of less than 12 months determined according to GAAP.

"REVOLVING MATURITY DATE" is April 8, 2000.

"TANGIBLE NOT WORTH" is, on any date, the consolidated total assets of Borrower and its Subsidiaries minus (i) any amounts attributable to (a) goodwill, (b) intangible items such as unamortized debt discount and expense, Patents, trade and service marks and names, Copyrights and research and development expenses except prepaid expenses, and (c) reserves not already deducted from assets, and (ii) Total Liabilities plus Subordinated Debt.

4. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

5. PAYMENT OF LOAN FEE. Borrower shall pay to Bank a fee in the amount of Fifteen Thousand Dollars ($15,000) (the "Loan Fee") plus all out-of-pocket expenses.

6. NO DEFENSES OF BORROWER. Borrower (and each guarantor and pledgor signing below) agrees that, as of the date hereof, it has no defenses against the obligations to pay any amounts under the Indebtedness.

7. CONTINUING VALIDITY. Borrower (and each guarantor and pledgor signing below) understands and agrees that in modifying the existing Indebtedness, Bank is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Loan Modification Agreement the terms of the Existing Loan Documents remain unchanged and in full force and effect. Bank's agreement to modifications to the existing Indebtedness pursuant to this Loan Modification Agreement in no way shall obligate Bank to make any future modifications to the Indebtedness. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Indebtedness. It is the intention of Bank and Borrower to retain as liable parties all makers and endorsers of Existing Loan Documents, unless the party is expressly released by Bank in writing. No maker, endorser, or guarantor will be released by virtue of this Loan Modification Agreement The terms of this paragraph apply not only to this Loan Modification Agreement, but also to all subsequent loan modification agreements.

8. CONDITIONS. The effectiveness of this Loan Modification Agreement is conditioned upon Borrower's payment of the Loan Fee.

This Loan Modification Agreement is executed as of the date first written above.

BORROWER:	BANK:
PIXELWORKS, INC.	SILICON VALLEY BANK
By: /s/ Allen H. Alley	By: /s/ Bruce Helberg

Name: Allen H. Alley	Name: Bruce Helberg
Title: President & CEO	Title: Vice President

EXHIBIT 10.5

NEGATIVE PLEDGE AGREEMENT

This Negative Pledge Agreement is made as of August 14, 1998 by and between Pixelworks, Inc. ("Borrower") and Silicon Valley Bank ("Bank").

In connection with, among other documents, the Loan and Security Agreement (the "Loan Documents") being concurrently executed herewith between Borrower and Bank, Borrower agrees as follows:

1. Borrower shall not sell, transfer, assign, mortgage, pledge, lease, grant a security interest in, or encumber any of Borrower's intellectual property, including, without limitation, the following:

   a. Any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held;

   b. All mask works or similar rights available for the protection of semiconductor chips, now owned or hereafter acquired;

   c. Any and all trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired or held;

   d. Any and all design rights which may be available to Borrower now or hereafter existing, created, acquired or held;

   e. All patents, patent applications and Re protections including, without limitation, improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same, including without limitation the patents and patent applications;

   f. Any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks, including without limitation;

   g. Any and all claims for damages by way of past, present and future infringements of any of the rights included above, with the right, but not

   the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;

   h. All licenses or other rights to use any of the Copyrights, Patents, Trademarks or Mask Works, and all license fees and royalties arising from such use to the extent permitted by such license or rights; and

   i. All amendments, extensions, renewals and extensions of any of the Copyrights, Trademarks, Patents, or Mask Works; and

   j. All proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the

foregoing;

2. It shall be an event of default under the Loan Documents between Borrower and Bank if there is a breach of any term of this Negative Pledge Agreement.

3. Capitalized terms used but not otherwise defined herein shall have the same meaning as in the Loan Documents.

BORROWER:

Pixelworks, Inc.

By: /s/ Allen H. Alley

Name: Allen H. Alley

Title: President & CEO

BANK:

SILICON VALLEY BANK

By: /s/ Bruce Helberg

Name: Bruce Helberg

Title: Vice President

EXHIBIT 10.6

PIXELWORKS, INC.

2000 EMPLOYEE STOCK PURCHASE PLAN

The following constitute the provisions of the 2000 Employee Stock Purchase Plan of Pixelworks, Inc.

1. PURPOSE. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. DEFINITIONS.

(a) "BOARD" shall mean the Board of Directors of the Company.

(b) "CODE" shall mean the Internal Revenue Code of 1986, as amended.

(c) "COMMON STOCK" shall mean the common stock of the Company.

(d) "COMPANY" shall mean Pixelworks, Inc., an Oregon corporation, and any Designated Subsidiary of the Company.

(e) "COMPENSATION" shall mean all base straight time gross earnings and commissions, but exclusive of payments for overtime, shift premium, incentive compensation, incentive payments, bonuses and other compensation.

(f) "DESIGNATED SUBSIDIARY" shall mean any Subsidiary which has been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(g) "EMPLOYEE" shall mean any individual who is an Employee of the Company for tax purposes whose customary employment with the Company is at least twenty (20) hours per week and more than five (5) months in any calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company. Where the period of leave exceeds 90 days and the individual's right to re-employment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave.

(h) "ENROLLMENT DATE" shall mean the first Trading Day of each Offering Period.

(i) "EXERCISE DATE" shall mean the last Trading Day of each Purchase Period.

(j) "FAIR MARKET VALUE" shall mean, as of any date, the value of Common Stock determined as follows:

(1) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day on or before the date of such determination, as reported in The Wall Street Journal or such other source as the Board deems reliable;

(2) If the Common Stock is regularly quoted by a

recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock for the last quotation day on or before the date of such determination, as reported in The Wall Street Journal or such other source as the Board deems reliable;

(3) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board; or

(4) For purposes of the Enrollment Date of the first Offering Period under the Plan, the Fair Market Value shall be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company's Common Stock (the "Registration Statement").

(k) "OFFERING PERIODS" shall mean the periods of approximately twenty-four (24) months during which an option granted pursuant to the Plan may be exercised, commencing on the first Trading Day on or after February 1 and August 1 of each year and terminating on the last Trading Day in the periods ending twenty-four months later.

(l) "PLAN" shall mean this 2000 Employee Stock Purchase Plan.

(m) "PURCHASE PERIOD" shall mean the approximately six month period commencing after one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period shall commence on the Enrollment Date and end with the next Exercise Date.

(n) "PURCHASE PRICE" shall mean 85% of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower; PROVIDED HOWEVER, that the Purchase Price may be adjusted by the Board pursuant to Section 20.

(o) "RESERVES" shall mean the number of shares of Common Stock covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

(p) "SUBSIDIARY" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

(q) "TRADING DAY" shall mean a day on which national stock exchanges and the Nasdaq System are open for trading.

3. ELIGIBILITY

(a) Any Employee who shall be employed by the Company on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries accrues at a rate which exceeds Twenty-Five Thousand Dollars ($25,000) worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. OFFERING PERIODS. The Plan shall be implemented by consecutive, overlapping Offering Periods with a new Offering Period commencing on the first Trading Day on or after February 1 and August 1 each year, or on such other date

as the Board shall determine, and continuing thereafter until terminated in accordance with Section 20 hereof. The Board shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without shareholder approval if such change is announced at least five (5) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. PARTICIPATION.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll. deductions in the form of Exhibit A to this Plan and filing it with the Company's payroll office prior to the applicable Enrollment Date.

(b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

6. PAYROLL DEDUCTIONS.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in one percent (1%) increments of not less than two percent (2%) or greater than ten percent (10%) of the Compensation which he or she receives on each pay day during the Offering Period.

(b) All payroll deductions made for a participant shall be credited to his or her account under the Plan and shall be withheld in whole percentages only. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, or may increase or decrease the rate of his or her payroll deductions during the Offering Period by completing or filing with the Company a new subscription agreement authorizing a change in payroll deduction rate. The Board may, in its discretion, limit the number of participation rate changes during any Offering Period. The change in rate shall be effective with the first full payroll period following five (5) business days after the Company's receipt of the new subscription agreement unless the Company elects to process a given change in participation more quickly. A participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be decreased to zero percent (0%) at any time during a Purchase Period. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Purchase Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.

(e) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Employee.

7. GRANT OF OPTION. On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of the Company's Common Stock determined by dividing such Employees payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall

an Employee be permitted to purchase during each Purchase Period more than two thousand five hundred (2,500) shares of the Company's Common Stock (subject to any adjustment pursuant to Section 19), and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b), 8(b) and 12 hereof. The Board may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of the

Company's Common Stock an Employee may purchase during each Purchase Period of such Offering Period. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The option shall expire on the last day of the Offering Period.

8. EXERCISE OF OPTION.

(a) Unless a participant withdraws from the Plan as provided in Section 10 hereof, his or her option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account; provided that in no event shall an Employee be permitted to purchase during each Purchase Period more than two hundred percent (200%) of the number of shares that the Employee could purchase if the Purchase Price was limited to eight-five percent (85%) of the Fair Market Value of a share of Common Stock on the Enrollment Date. No fractional shares shall be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. Any other monies leftover in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

(b) If the Board determines that, on a given Exercise Date, the number of shares with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Enrollment Date of the applicable Offering Period, or (ii) the number of shares available for sale under the Plan on such Exercise Date, the Board may in its sole discretion (x) provide that the Company shall make a pro rata allocation of the shares of Common Stock available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect, or (y) provide that the Company shall make a pro rata allocation of the shares available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and terminate any or all Offering Periods then in effect pursuant to Section 20 hereof. The Company may make pro rata allocation of the shares available on the Enrollment Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's shareholders subsequent to such Enrollment Date.

9. DELIVERY. As promptly as practicable after each Exercise Date on which a purchase of shares occurs, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of his or her option.

10. WITHDRAWAL.

(a) A participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by giving written notice to the Company in the form of Exhibit B to this Plan. All of the participants payroll deductions credited to his or her account shall be paid to such participant

promptly after receipt of notice of withdrawal and such participants option for the Offering Period shall be automatically terminated, and no further payroll deductions for the purchase of shares shall be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement.

(b) A participants withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.

11. TERMINATION OF EMPLOYMENT.

Upon a participant's ceasing to be an Employee, for any reason, he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the Offering Period but not yet used to exercise the option shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15 hereof, and such participant's option shall be automatically terminated. The preceding sentence notwithstanding, a participant who receives payment in lieu of notice of termination of employment shall be treated as continuing to be an Employee for the participant's customary number of hours per week of employment during the period in which the participant is subject to such payment in lieu of notice.

12. INTEREST. No interest shall accrue on the payroll deductions of a participant in the Plan.

13. STOCK.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be one million (1,000,000) shares, plus an annual increase to be added on the first day of the Company's fiscal year beginning in 2005 equal to the lesser of (i) the number of shares of Common Stock issued pursuant to the Plan during the immediately preceding fiscal year of the Company, (ii) two percent (2%) of the outstanding shares of Common Stock on the first day of the Company's fiscal year for which the increase is being made or (iii) a lesser amount determined by the Board.

(b) The participant shall have no interest or voting right in shares covered by his option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan shall be registered in the name of the participant or in the name of the participant and his or her spouse.

14. ADMINISTRATION. The Plan shall be administered by the Board or a committee of members of the Board appointed by the Board. The Board or its committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claim filed under the Plan. Every finding, decision and determination made by the Board or its committee shall to the full extent permitted by law, be final and binding upon all parties.

15. DESIGNATION OF BENEFICIARY.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the

participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. TRANSFERABILITY. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. USE OF FUNDS. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. REPORTS. Individual accounts shall be maintained for each participant in the Plan. Statements of account shall be given to participating Employees at least annually, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

19. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION, DISSOLUTION, LIQUIDATION, MERGER OF ASSET SALE

(a) CHANGES IN CAPITALIZATION. Subject to any required action by the shareholders of the Company, the Reserves, the maximum number of shares each participant may purchase each Purchase Period (pursuant to Section 7), as well as the price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company, provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

(b) DISSOLUTION OR LIQUIDATION. In the event of the proposed dissolution or liquidation of the Company, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date"), and shall terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Board. The New Exercise Date shall be before the date of the Company's proposed dissolution or liquidation. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

(c) MERGER OR ASSET SALE. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each outstanding option shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, any Purchase Periods then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date") and any Offering Periods then in progress shall

end on the New Exercise Date. The New Exercise Date shall be before the date of the Company's proposed sale or merger. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

20. AMENDMENT OR TERMINATION.

(a) The Board of Directors of the Company may at any time and for any reason terminate or amend the Plan. Except as provided in Section 19 hereof, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Board of Directors on any Exercise Date if the Board determines that the termination of the Offering Period or the Plan is in the best interests of the Company and its shareholders. Except as provided in Section 19 and this Section 20 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule), the Company shall obtain shareholder approval in such a manner and to such a degree as required.

(b) Without shareholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

(c) In the event the Board determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including, but not limited to:

(1) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;

(2) shortening any Offering Period so that Offering Period ends on a new Exercise Date, including an Offering Period underway at the time of the Board action; and

(3) allocating shares.

Such modifications or amendments shall not require stockholder approval or the consent of any Plan participants.

21. NOTICES. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form

specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. CONDITIONS UPON ISSUANCE OF SHARES. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance

and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. TERM OF PLAN. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 20 hereof

24. AUTOMATIC TRANSFER TO LOW PRICE OFFERING PERIOD. To the extent permitted by any applicable laws, regulations, or stock exchange rules if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Enrollment Date of such Offering Period, then all participants in such Offering Period shall be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.

EXHIBIT A

PIXELWORKS, INC.

2000 EMPLOYEE STOCK PURCHASE PLAN

SUBSCRIPTION AGREEMENT

Original Application Enrollment Date:_____
Change in Payroll Deduction Rate
Change of Beneficiary(ies)

1. _____ hereby elects to participate in the Pixelworks, Inc. 2000 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan") and subscribes to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Employee Stock Purchase Plan.

2. I hereby authorize payroll deductions from each paycheck in the amount of _____ % of my Compensation on each payday (from 2% to 10%) during the Offering Period in accordance with the Employee Stock Purchase Plan. (Please note that no fractional percentages are permitted.)

3. I understand that said payroll deductions shall be accumulated for the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Employee Stock Purchase Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my option.

4. I have received a copy of the complete Employee Stock Purchase Plan. I understand that my participation in the Employee Stock Purchase Plan is in all respects subject to the terms of the Plan. I understand that my ability to exercise the option under this Subscription Agreement is subject to shareholder approval of the Employee Stock Purchase Plan.

5. Shares purchased for me under the Employee Stock Purchase Plan should be issued in the name(s) of (Employee or Employee and Spouse only):_____
_____.

6. I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Enrollment Date (the first day of the Offering Period during which I purchased such shares) or one year after the Exercise Date, I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were purchased by me over the price which I paid for the shares. I AGREE TO NOTIFY THE COMPANY IN WRITING WITHIN 30 DAYS AFTER THE DATE OF ANY DISPOSITION OF MY SHARES AND I WILL MAKE ADEQUATE PROVISION FOR FEDERAL, STATE OR OTHER TAX WITHHOLDING OBLIGATIONS, IF ANY, WHICH ARISE UPON THE DISPOSITION OF THE COMMON STOCK. The Company may, but will not be

obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by me. If I dispose of such shares at any time after the expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares, or (2) 15% of the fair market value of the shares on the first day of the Offering Period. The remainder of the gain, if any, recognized on such disposition will be taxed as capital gain.

7. I hereby agree to be bound by the terms of the Employee Stock Purchase Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Employee Stock Purchase Plan.

8. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due me under the Employee Stock Purchase Plan:

NAME: (Please print)

(First) (Middle) (Last)

Relationship

(Address)

Employee's Social Security Number:

Employee's Address:

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated: ---

Signature of Employee

Spouse's Signature (If beneficiary other than spouse)

EXHIBIT B

PIXELWORKS, INC.

2000 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

The undersigned participant in the Offering Period of the Pixelworks, Inc. 2000 Employee Stock Purchase Plan which began on _____ _____, 20___ (the "Enrollment Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned shall be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

Signature:

Date:

EXHIBIT 10.7

LEASE AGREEMENT

BY AND BETWEEN

SOUTHCENTER III AND IV INVESTORS LLC.
A DELAWARE LIMITED LIABILITY COMPANY

AS LANDLORD

AND

PIXELWORKS, INC.
AN OREGON CORPORATION

AS TENANT

DATED APRIL 14, 1999

INDEX OF EXHIBITS

INDEX OF DEFINED TERMS

LEASE AGREEMENT

BASIC LEASE INFORMATION

Lease Date:	April 14, 1999
Landlord:	SOUTHCENTER III & IV INVESTORS LLC, a Delaware Limited Liability Company
Landlord's Address:	c/o Insignia/ESG, Inc. 7987 SW Mohawk Street Tualatin, Oregon 97062

	All notices sent to Landlord under this Lease shall be sent to the above address.
Tenant:	Pixelworks, Inc. an Oregon corporation
Tenant's Contact Person:	Allen Alley
Tenant's Address and Telephone Number:	7720 SW Mohawk Street Tualatin, Oregon 97062
Premises Square Footage:	Approximately Twenty Three Thousand Four Hundred (23,400) rentable square feet
Premises Address:	7720 SW Mohawk Street Tualatin, Oregon 97062
Project:	SouthCenter Phase III, together with the land on which the Project is situated and all Common Areas consisting of 112,578 sf.
Building (if not the same as the Project):	Building H Consisting of 23,400 sf.
Tenant's Proportionate Share of Project:	20.79%
Tenant's Proportionate Share of Building:	100%
Length of Term:	Sixty (60) months

Estimated Commencement Date:	June 1, 1999
Estimated Expiration Date:	May 31, 2004

Extrapolated Annual Months Base Rent:	Sq. Ft.	Annual Base Rate	Annual Base Rent	Monthly Base Rent
1-9	14,735x	$19.75=	$291,016=	$24,252.00
10-12	19,068x	$19.75=	$376,593=	$31,383.00
13-36	23,400x	$19.75=	$462,150=	$38,513.00
37-60	23,400x	$21.25=	$497,250=	$42,413.00

Prepaid Base Rent:	Twenty Four Thousand Two Hundred Fifty Two Dollars ($24,252)
Prepaid Additional Rent:	
Month(s) to which Prepaid Base Rent and Additional Rent will be Applied:	Prepaid rent will be applied to months 1.
Base Year:	Nineteen Hundred Ninety Nine, 1999
Security Deposit:	One hundred sixty one thousand Eight hundred fifty two Dollars ($161,852). Landlord will accept a declining letter of credit in the amount of One hundred nineteen thousand four hundred thirty nine dollars ($119,439) and the balance to be received as cash. Letter of credit may be reduced at the following intervals: $38,513 after the 13th month, $38,513 after the 25th month, and $42,413 after the 37th month.

Guarantor:	None
Permitted Use:	General office use consistent with the standards of a "Class A" office building. Also permitted is Research & Development, Warehousing and Distribution of Electronics parts
Reserved Parking Spaces:	None (0) exclusive and designated parking spaces
Unreserved Parking Spaces:	Ninety four (94) non-exclusive and undesignated parking spaces
Broker(s):	Insignia/ESG, Inc.(Landlord's Broker) Corporate Property Services (Tenant's Broker)

LEASE AGREEMENT

THIS LEASE AGREEMENT is made and entered into by and between Landlord and Tenant on the Lease Date. The defined terms used in this Lease which are defined in the Basic Lease Information attached to this Lease Agreement ("Basic Lease Information") shall have the meaning and definition given them in the Basic Lease Information. The Basic Lease Information, the exhibits, the addendum or addenda described in the Basic Lease Information, and this Lease Agreement are and shall be construed as a single instrument and are referred to herein as the "Lease".

1. DEMISE

In consideration for the rents and all other charges and payments payable by Tenant, and for the agreements, terms and conditions to be performed by Tenant in this Lease, LANDLORD DOES HEREBY LEASE TO TENANT, AND TENANT DOES HEREBY LEASE FROM LANDLORD, the Premises described below (the "Premises"), upon the agreements, terms and conditions of this Lease for the Term hereafter stated.

2. PREMISES

The Premises demised by this Lease are located in that certain building (the "Building") specified in the Basic Lease Information, which Building is located in that certain real estate development (the "Project") specified in the Basic Lease Information. The Premises have the address and contains the square footage specified in the Basic Lease Information; provided, however, that any statement of square footage set forth in this Lease, or that may have been used in calculating any of the economic terms hereof, is an approximation which Landlord and Tenant agree is reasonable and, except as expressly set forth in Paragraphs 4(c)(3) and 4(c)(5) below, no economic terms based thereon shall be subject to revision whether or not the actual square footage is more or less. The location and dimensions of the Premises are depicted on Exhibit A, which is attached hereto and incorporated herein by this reference. Tenant shall have the non-exclusive right (in common with the other tenants, Landlord and any other person granted use by Landlord) to use the Common Areas (as hereinafter defined), except that with respect to the Projects parking areas (the "Parking Areas"), Tenant shall have only the rights, if any, set forth in Paragraph 44 below. For purposes of this Lease, the term "Common Areas" shall mean all areas and facilities outside the Premises and within the exterior boundary line of the Project that are, from time to time, provided and designated by Landlord for the non-exclusive use of Landlord, Tenant and other tenants of the Project and their respective employees, guests and invitees.

Tenant understands and agrees that the Premises shall be leased by Tenant in its as-is condition without any improvements or alterations by Landlord unless Landlord has expressly agreed to make such improvements; or alterations in a tenant improvement work agreement attached hereto, if at all, as Exhibit B. If Landlord has agreed to make any such improvements or alterations, then the Premises demised by this Lease shall include any Tenant Improvements (as that term is defined in the aforesaid tenant improvement

work agreement) to be constructed by Landlord within the interior

of the Premises. Landlord shall construct any Tenant Improvements on the terms and conditions set forth in Exhibit B, if attached hereto. Landlord and Tenant agree to and shall be bound by the terms and conditions of Exhibit B, if any.

Landlord has the right, in its sole discretion, from time to time, to: (a) make changes to the Common Areas, the Building and/or the Project, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, ingress, egress, direction of driveways, entrances, hallways, corridors, lobby areas and walkways; (b) close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available; (c) add additional buildings and improvements to the Common Areas or remove existing buildings or improvements therefrom; (d) use the Common Areas while engaged in making additional improvements, repairs or alterations to the Project or any portion thereof, and (e) do and perform any other acts, alter or expand, or make any other changes in, to or with respect to the Common Areas, the Building and/or the Project as Landlord may, in its sole discretion, deem to be appropriate. Without limiting the foregoing, Landlord reserves the right from time to time to install, use, maintain, repair, relocate and replace pipes, ducts, conduits, wires, and appurtenant meters and equipment for service to the Premises or to other parts of the Building which are above the ceiling surfaces, below the floor surfaces, within the walls and in the central core areas of the Building which are located within the Premises or located elsewhere in the Building. In connection with any of the foregoing activities of Landlord, Landlord shall use reasonable efforts while conducting such activities to minimize any interference with Tenant's use of the Premises, however, Tenant's rent shall abate during such activities to the extent, if any, Tenant is denied use of the Premises.

No rights to any view or to fight or air over any property, whether belonging to Landlord or any other person, are granted to Tenant by this Lease. If at any time any windows of the Premises are temporarily darkened or the light or view therefrom is obstructed by reason of any repairs, improvements, maintenance or cleaning in or about the Building, the same shall be without liability to Landlord and without any reduction or diminution of Tenant's obligations under this Lease.

3. TERM

The term of this Lease (the "Term") shall commence on June 1, 1999 (the "Commencement Date") and shall terminate on May 31, 2004 (the "Expiration Date").

4. RENT

1. BASE RENT. Tenant shall pay to Landlord, in advance on the first day of each month, without further notice or demand and without abatement, offset, rebate, credit or deduction for any reason whatsoever except as specifically provided herein, the monthly installments of rent specified in the Basic Lease Information (the "Base Rent").

Upon execution of this Lease, Tenant shall pay to Landlord the Security Deposit, Prepaid Rent, and the first monthly installment of estimated Additional Rent (as hereinafter defined) specified in the Basic Lease Information to be applied toward Base Rent and Additional Rent for the month(s) of the Term specified in the Basic Lease Information.

As used in this Lease, the term "Additional Rent" shall mean all sums of money, other than Base Rent, that shall become due from and payable by Tenant pursuant to this Lease.

2. ADDITIONAL RENT.

(1) During the Term, in addition to the Base Rent, Tenant shall pay to Landlord as Additional Rent, in accordance with this Paragraph 4, (i) Tenant's Proportionate Share(s) of the total dollar increase, if any, in

Operating Expenses (as defined below) attributable to each Computation Year (as defined below) over Base Operating Expenses (as defined below), (ii) Tenant's Proportionate Share(s) of the total dollar increase, if any, in Insurance Expenses (as defined below) attributable to each Computation Year over Base Insurance Expenses (as defined below), (iii) Tenant's Proportionate Share(s) of the total dollar increase, if any, in Utility Expenses (as defined below) attributable to each Computation Year over Base Utility Expenses (as defined below), and (iv) Tenant's Proportionate Share(s) of the total dollar increase, if any, in Taxes (as defined below) attributable to each Computation Year over Base Taxes (as defined below).

(2) As used in this Lease, the following terms shall have the meanings specified:

(A) "OPERATING EXPENSES" means the total costs and expenses paid or incurred by Landlord in connection with the ownership, operation, maintenance, management and repair of the Premises, the Building and/or the Project or any part thereof, including, without limitation, all the following items:

(i) COMMON AREA OPERATING EXPENSES. All costs to operate, maintain, repair, replace, supervise, insure and administer the Common Areas, including, without limitation, any Parking Areas owned by Landlord for the use of tenants, and further including, without limitation, supplies, materials, labor and equipment used in or related to the operation and maintenance of the Common Areas, including Parking Areas (including, without limitation, all costs of resurfacing and restriping Parking Areas), signs and directories on the Building and/or the Project, landscaping (including, without limitation, maintenance contracts and fees payable to landscaping consultants), amenities, sprinkler systems, sidewalks, walkways, driveways, curbs, lighting systems and security services, if any, provided by Landlord for the Common Areas, and any charges, assessments, costs or fees levied by any association or entity of which the Project or any part thereof is a member or to which the Project or any part thereof is subject.

(ii) PARKING CHARGES; PUBLIC TRANSPORTATION EXPENSES. Any parking charges or other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes or regulations, or interpretations thereof, promulgated by any governmental authority or insurer in connection with the use or occupancy of the Building or the Project, and the cost of maintaining any public transit system, vanpool, or other public or semi-public transportation imposed upon Landlord's ownership and operation of the Building and/or the Project.

(iii) MAINTENANCE AND REPAIR COSTS. Except for costs which are the responsibility of Landlord pursuant to Paragraph 13(b) below, all costs to maintain, repair, and replace the Premises, the Building and/or the Project or any part thereof and the personal property used in conjunction therewith, including without limitation, (a) all costs paid under maintenance, management and service agreements such as contracts for janitorial, security and refuse removal, (b) all costs to maintain, repair and replace the roof coverings of the Building or the Project or any part thereof, (c) all costs to maintain, repair and replace the heating, ventilating, air conditioning, plumbing, sewer, drainage, electrical, fire protection, escalator, elevator, life safety and security systems and other mechanical, electrical and communications systems and equipment serving the Premises, the Building and/or the Project or any part thereof (collectively, the "Systems"), (d) the cost of all cleaning and janitorial services and supplies, the cost of window glass replacement and repair, and (e) the cost of maintenance, depreciation and replacement of machinery, tools and equipment (if owned by Landlord) and for rental paid for such machinery, tools and equipment (if rented) used in connection with the operation or maintenance of the Building, and (f) all costs and expenses incurred in causing the Project to be Year 2000 Compliant (as defined below). "Year 2000 Compliant" shall mean that all Systems containing or using computers or other information technology will function without material error or interruption resulting from the date change from year 1999 to year 2000, to the extent that information technology of third parties properly communicates date/time data with the Systems.

(iv) LIFE SAFETY COSTS. All costs to install, maintain, repair and replace all life safety systems, (including the initial cost of

installation to upgrade system to meet current code requirements) including, without limitation, all fire alarm systems, serving the Premises, the Building and/or the Project or any part thereof (including all maintenance contracts and fees payable to life safety consultants) whether such systems are or shall be required by Landlord's insurance carriers, Laws (as hereinafter defined) or otherwise.

(v) MANAGEMENT AND ADMINISTRATION. All costs for management and administration of the Premises, the Building and/or the Project or any part thereof, including, without limitation, a property management fee, accounting, auditing, billing, postage, salaries and benefits for all employees and contractors engaged in the management, operation, maintenance, repair and protection of the Building and the Project, whether located on the Project or off-site, payroll taxes and legal and accounting costs, fees for licenses and permits related to the ownership and operation of the Project, and office rent for the Building and/or Project management office or the rental value of such office if it is located within the Building and/or Project.

(vi) CAPITAL IMPROVEMENTS. The cost of capital improvements or other costs incurred in connection with the Project (a) which are intended to effect economies in the operation or maintenance of the Project, or any portion thereof, (b) that are required to comply with present or anticipated conservation programs, (c) which are replacements or modifications of structural or nonstructural items located in the Common Areas required to keep the Common Areas in good order or condition, or (d) that are required under any governmental law or regulation. Such costs will be passed through to tenant over the useful life of the Improvement using general accounting principles (GAP).

Notwithstanding anything in this Paragraph 4(b) to the contrary, Insurance Expenses, Utility Expenses and Taxes shall not be deemed to constitute "Operating Expenses" for purposes of this Paragraph 4(b)(2)(A).

(B) "INSURANCE EXPENSES" means the total costs and expenses paid or incurred by Landlord in connection with the obtaining of insurance on the Premises, the Building and/or the Project or any part thereof or interest therein, including, without limitation, premiums for "all risk" fire and extended coverage insurance, commercial general liability insurance, rent loss or abatement insurance, earthquake insurance, flood or surface water coverage, and other insurance as Landlord deems necessary in its sole discretion, and any deductibles paid under policies of any such insurance. The foregoing shall not be deemed an agreement by Landlord to carry any particular insurance relating to the Premises, Building, or Project.

(C) "UTILITY EXPENSES" means the cost of all electricity, water, gas, sewers, oil and other utilities (collectively, "Utilities"), including any surcharges imposed, serving the Premises, the Building and the Project or any part thereof that are not separately metered to Tenant or any other tenant, and any amounts, taxes, charges, surcharges, assessments or impositions levied, assessed or imposed upon the Premises, the Building or the Project or any part thereof, or upon Tenant's use and occupancy thereof, as a result of any rationing of Utility services or restriction on Utility use affecting the Premises, the Building and/or the Project, as contemplated in Paragraph 5 below. Utility expenses shall not include any systems development, hook up charges, or other general charges for any new development within the project.

(D) "TAXES" means all real estate taxes and assessments, which shall include any form of tax, assessment (including any special or general assessments and any assessments or charges for Utilities or similar purposes included within any tax bill for the Building or the Project or any part thereof, including, without limitation, entitlement fees, allocation unit fees and/or any similar fees or charges), fee, license fee, business license fee, levy, penalty (if a result of Tenant's delinquency), sales tax, rent tax, occupancy tax or other tax (other than net income, estate, succession, inheritance, transfer or franchise taxes), imposed by any authority having the direct or indirect power to tax, or by any city, county, state or federal government or any improvement or other district or division thereof, whether such tax is determined by the area of the Premises, the Building and/or the Project or any part thereof, or the Rent and other stuns payable hereunder by Tenant or by other tenants, including, but not limited to, (i) any gross

income or excise tax levied

by any of the foregoing authorities, with respect to receipt of Rent and/or other sums due under this Lease; (ii) upon any legal or equitable interest of Landlord in the Premises, the Building and/or the Project or any part thereof, (iii) upon this transaction or any document to which Tenant is a party creating or transferring any interest in the Premises, the Building and/or the Project; (iv) levied or assessed in lieu of, in substitution for, or in addition to, existing or additional taxes against the Premises, the Building and/or the Project, whether or not now customary or within the contemplation of the parties; or surcharged against the Parking Areas. "Taxes" shall also include legal and consultants' fees, costs and disbursements incurred in connection with proceedings to contest, determine or reduce taxes, Landlord specifically reserving the right, but not the obligation, to contest by appropriate legal proceedings the amount or validity of any taxes.

(E) "BASE YEAR" shall mean the calendar year specified in the Basic Lease Information.

(F) "BASE OPERATING EXPENSES" shall mean the amount of Operating Expenses for the Base Year.

(G) "BASE INSURANCE EXPENSES" shall mean the amount of Insurance Expenses for the Base Year.

(H) "BASE TAXES" shall mean the amount of Taxes for the Base Year.

(I) "BASE UTILITY EXPENSES" shall mean the amount of Utility Expenses for the Base Year to be determined by average actual usage for 1996 and 1997 taking into account inflationary increases.

(J) "COMPUTATION YEAR" shall mean each twelve (12) consecutive month period commencing January 1 of each year during the Term following the Base Year, provided that Landlord, upon notice to Tenant, may change the Computation Year from time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant's Proportionate Share(s) of Operating Expenses over Base Operating Expenses, of Insurance Expenses over Base Insurance Expenses, of Utility Expenses over Base Utility Expenses, and of Taxes over Base Taxes shall be equitably adjusted for the Computation Years involved in any such change.

3. PAYMENT OF ADDITIONAL RENT.

(1) Within ninety (90) days of the end of the Base Year and each Computation Year or as soon thereafter as practicable, Landlord shall give to Tenant notice of Landlord's estimate of the total amounts that will be payable by Tenant under Paragraph 4(b) for the following Computation Year, and Tenant shall pay such estimated Additional Rent on a monthly basis, in advance, on the first day of each month. Tenant shall continue to make said monthly payments until notified by Landlord of a change therein. If at any time or times Landlord determines that the amounts payable under Paragraph 4(b) for the current Computation Year will vary from Landlord's

estimate given to Tenant, Landlord, by notice to Tenant, may revise the estimate for such Computation Year, and subsequent payments by Tenant for such Computation Year shall be based upon such revised estimate. By August 1 of each calendar year following the initial Computation Year, Landlord shall provide to Tenant a statement showing the actual Additional Rent due to Landlord for the prior Computation Year. If the total of the monthly payments of Additional Rent that Tenant has made for the prior Computation Year is less than the actual Additional Rent chargeable to Tenant for such prior Computation Year, then Tenant shall pay the difference in a lump sum within ten (10) days after receipt of such statement from Landlord. Any overpayment by Tenant of Additional Rent for the prior Computation Year shall, at Landlord's option, be either credited towards the Additional Rent next due or returned to Tenant in a lump sum payment within ten (10) days after delivery of such statement.

(2) Landlord's then-current annual operating and capital budgets for the Building and the Project or the pertinent part thereof shall be used for purposes of calculating Tenants monthly payment of estimated Additional Rent for the current year, subject to adjustment as provided above. Landlord shall make the final determination of Additional Rent for the year in which this Lease terminates as soon as possible after termination of such year. Even though the Term has expired and Tenant has vacated the Premises, with respect to the year in which this Lease expires or terminates, Tenant shall remain liable for payment of any amount due to Landlord in excess of the estimated Additional Rent previously paid by Tenant, and, conversely, Landlord shall promptly return to Tenant any overpayment. Failure of Landlord to submit statements as called for herein shall not be deemed a waiver of Tenant's obligation to pay Additional Rent as herein provided.

(3) With respect to Operating Expenses, Insurance Expenses, Utility Expenses or Taxes which Landlord allocates to the Building, Tenant's "Proportionate Share" shall be the percentage set forth in the Basic Lease Information as Tenant's Proportionate Share of the Building, as adjusted by Landlord from time to time for a remeasurement of or changes in the physical size of the Premises or the Building, whether such changes in size are due to an addition to or a sale or conveyance of a portion of the Building or otherwise. With respect to Operating Expenses, Insurance Expenses, Utility Expenses or Taxes which Landlord allocates to the Project as a whole or to only a portion of the Project, Tenant's "Proportionate Share" shall be, with respect to Operating Expenses, Insurance Expenses, Utility Expenses or Taxes which Landlord allocates to the Project as a whole, the percentage set forth in the Basic Lease Information as Tenant's Proportionate Share of the Project and, with respect to Operating Expenses, Insurance Expenses, Utility Expenses or Taxes which Landlord allocates to only a portion of the Project, a percentage calculated by Landlord from time to time in its sole discretion and furnished to Tenant in writing, in either case as adjusted by Landlord from time to time for a remeasurement of or changes in the physical size of the Premises or the Project, whether such changes in size are due to an addition to or a sale or conveyance of a portion of the Project or otherwise. Notwithstanding the foregoing, Landlord may equitably adjust Tenant's Proportionate Share(s) for all or part of any item of expense or cost reimbursable by Tenant that relates to a repair, replacement, or service that benefits only the Premises or only a portion of the Building and/or the Project or that varies with the occupancy of the Building and/or the Project.

(4) In the event the average, occupancy level of the Building or the Project for the Base Year and/or any subsequent Computation Year is not ninety five percent (95%) or more of full occupancy, then the Operating Expenses for such year shall be apportioned among the tenants by the Landlord to reflect those costs which would have occurred had the Building or the Project, as applicable, been ninety five percent (95%) occupied during such year.

(5) Without limiting the terms of Paragraph 4(c) above, Landlord reserves the right from time to time to remeasure the Premises, the Building and/or the Project in accordance with the current or revised standards promulgated from time to time by the Building Owners and Managers Association (BOMA) or the American National Standards Institute or other generally accepted measurement standards utilized by Landlord and to thereafter adjust the Proportionate Share(s) of Tenant and any other affected tenants of the Building and/or Project. Landlord shall not adjust the Base Rent based on any such remeasurement and any remeasurentent shall occur to all the buildings in the Project.

4. GENERAL PAYMENT TERMS. The Base Rent, Additional Rent and all other sums payable by Tenant to Landlord hereunder, any late charges assessed pursuant to Paragraph 6 below and any interest assessed pursuant to Paragraph 46 below, are referred to as the "Rent." All Rent shall be paid in lawful money of the United States of America. Checks are to be made payable to SOUTHCENTER HI & IV INVESTORS LLC and shall be mailed to: SOUTHCENTER III&IV INVESTORS LLC, PO BOX 5087, MAIL STOP 96, PORTLAND, OREGON 97208, or to such other person or place as Landlord may, from time to time, designate to Tenant in writing. The Rent for any fractional part of a calendar month at the commencement or termination of the Term shall be a prorated amount of the Rent for a full calendar month based upon a thirty (30) day month.

5. STATEMENTS BINDING. Every statement given by Landlord pursuant to paragraph (c) of this Paragraph 4 shall be conclusive and binding upon Tenant unless (i) within ninety (90) days after the receipt of such statement Tenant shall notify Landlord that it disputes the correctness thereof, specifying the particular respects in which the statement is claimed to be incorrect, and (ii) if such dispute shall not have been settled by agreement, Tenant shall submit the dispute to arbitration within ninety (90) days after receipt of the statement. Pending the determination of such dispute by agreement or arbitration as aforesaid, Tenant shall, within ten (10) days after receipt of such statement, pay Additional Rent in accordance with Landlord's statement and such payment shall be without prejudice to Tenant's position. If the dispute shall be determined in Tenant's favor, Landlord shall forthwith pay Tenant the amount of Tenant's overpayment of Additional Rent resulting from compliance with Landlord's statement.

(1) Arbitration. Whenever arbitration is required under any provision of this Lease, such dispute shall be submitted to binding arbitration using the rules of the Arbitration Service of Portland, Inc., or the American Arbitration Association, at the election of the party initiating the arbitration. Unless otherwise agreed, arbitration shall be conducted in Portland, Oregon, before a single arbitrator. The parties shall be entitled to conduct discovery in accordance with the Federal Rules of Civil Procedure, subject to limitation by the arbitrator to secure just and efficient

resolution of the dispute. Costs of the arbitration shall be paid by the non-prevailing party, and each party shall pay its own attorney fees incurred in connection with the arbitration. The award of the arbitrator shall have the effect provided in the Oregon statutes governing arbitration.

6. AUDIT RIGHTS. Provided Tenant notifies Landlord in accordance with the terms of paragraph (e) above that Tenant disputes a statement received from Landlord, Tenant or its CPA (as defined below) shall have the right, at Tenant's sole cost and expense, provided Tenant utilizes a Certified Public Accountant (the "CPA") compensated on an hourly basis, upon at least thirty (30) days prior notice to Landlord at any time during regular business hours to audit, review and photocopy Landlord's records pertaining to Operating Expenses for the immediately previous calendar year only. Tenant agrees to keep all information thereby obtained by Tenant confidential.

5. UTILITIES AND SERVICES

1. From 7:00 a.m. to 6:00 p.m. on weekdays ("NORMAL BUSINESS HOURS" (excluding legal holidays)), Landlord shall furnish to the Premises electricity for lighting and operation of low power usage office machines, water, heat and air conditioning, per the following specifications: provide adequate electrical wiring and facilities for connection to Tenant's lighting fixtures and incidental use equipment provided that (i) the connected electrical load to the incidental use equipment not exceed an average of 3.5 waits connected load per rentable square foot of the Premises during the Normal Business Hours on a monthly basis, and the electricity so furnished for incidental use equipment will be a nominal one hundred twenty (120) volts and no electrical circuit for the supply of such incidental use equipment will require a current capacity exceeding twenty (20) amperes, and (ii) the connected electrical load of Tenant's lighting fixtures does not exceed an average of 1.0 watt per useable square foot of the Premises during the Normal Business hours on a monthly basis, and the electricity of furnished for Tenant's lighting will be a nominal one hundred twenty (120) volts, which electrical usage shall be subject to applicable laws and regulations. Tenant shall bear the cost of replacement of lamps, starters and ballasts for non-Building standard lighting fixtures within the Premises, and Landlord shall pay such cost for such building-standard fixtures, which cost shall be included in Operating Expenses. During all other hours, Landlord shall furnish such service except for heat and air conditioning. Landlord shall provide janitorial services for the Premises on weekdays (excluding legal holidays) as determined reasonably necessary by Landlord. Tenant shall separately arrange with, and pay directly to, the applicable local public authorities or utilities, as the case may be, for the furnishing, installation and maintenance of all telephone services and equipment as may be required by Tenant in the use of the Premises. Landlord shall not be liable for any damages resulting from interruption of, or Tenant's inability to receive such service, unless it was caused by Landlords gross negligence, and any such inability shall not relieve Tenant of any of its obligations

under this Lease.

2. If requested by Tenant, Landlord shall furnish heat and air conditioning at times other than Normal Business Hours and the cost of such services as established by Landlord shall be paid by Tenant as Additional Rent, payable concurrently with the next installment of Base Rent. During the initial Term, the cost of heat or air conditioning supplied during hours other than Normal

Business Hours shall be the actual cost of such service.

3. Without limiting the terms of Paragraph 5(a) above, Tenant acknowledges that Landlord has contracted with Portland General Electric to provide electricity for the Building, and that Landlord reserves the right to change the provider of such service at any time and from time to time in Landlord's sole discretion (any such provider being referred to herein as the "Electric Service Provider"). Tenant shall obtain and accept electrical service for the Premises only from and through Landlord, in the manner and to the extent expressly provided in this Lease, at all times during the term of this Lease, and Tenant shall have no right (and hereby waives any right Tenant may otherwise have) (i) to contract with or otherwise obtain any electrical service for or with respect to the Premises or Tenant's operations therein from any provider of electrical service other than the Electric Service Provider, or (ii) to enter into any separate or direct contract or other similar arrangement with the Electric Service Provider for the provision of electrical service to Tenant at the Premises. Tenant shall cooperate with Landlord and the Electric Service Provider at all times to facilitate the delivery of electrical service to Tenant at the Premises and to the Building, including without limitation allowing Landlord and the Electric Service Provider, and their respective agents and contractors, (a) to install, repair, replace, improve and remove and any and all electric lines, feeders, risers, junction boxes, wiring, and other electrical equipment, machinery and facilities now or hereafter located within the Building or the Premises for the purpose of providing electrical service to or within the Premises or the Building, and (b) reasonable access for the purpose of maintaining, repairing, replacing or upgrading such electrical service from time to time. Tenant shall provide such information and specifications regarding Tenant's use or projected use of electricity at the Premises as shall be required from time to time by Landlord or the Electric Service Provider to efficiently provide electrical service to the Premises or the Building. In no event shall Landlord be liable or responsible for any loss, damage, expense or liability, including without limitation loss of business or any consequential damages, arising from any failure or inadequacy of the electrical service being provided to the Premises or the Building, whether resulting from any change, failure, interference, disruption, or defect in the supply or character of the electrical service furnished to the Premises or the Building, or arising from the partial or total unavailability of electrical service to the Premises or the Building, from any cause whatsoever, or otherwise, nor shall any such failure, inadequacy, change, interference, disruption, defect or unavailability constitute an actual or constructive eviction of Tenant, or entitle Tenant to any abatement or diminution of Rent or otherwise relieve Tenant from any of its obligations under this Lease UNLESS CAUSED BY LANDLORD'S GROSS NEGLIGENCE.

4. Tenant acknowledges that the Premises, the Building and/or the Project may become subject to the rationing of Utility services or restrictions on Utility use as required by a public utility company, governmental agency or other similar entity having jurisdiction thereof. Tenant acknowledges and agrees that its tenancy and occupancy hereunder shall be subject to such rationing or restrictions as may be imposed upon Landlord, Tenant, the Premises, the Building and/or the Project, and Tenant shall in no event be excused or relieved from any covenant or obligation to be kept or performed by Tenant by reason of any such rationing or restrictions. Tenant agrees to comply with energy conservation programs implemented by Landlord by reason of

rationing, restrictions or Laws.

5. Landlord shall not be liable, unless caused by Landlord's gross

negligence for any loss, injury or damage to property caused by or resulting from any variation, interruption, or failure of Utilities due to any cause whatsoever, or from failure to make any repairs or perform any maintenance. No temporary interruption or failure of such services incident to the making of repairs, alterations, improvements, or due to accident, strike, or conditions or other events shall be deemed an eviction of Tenant or relieve Tenant from any of its obligations hereunder. In no event shall Landlord be liable to Tenant for any damage to the Premises or for any loss, damage or injury to any property therein or thereon occasioned by bursting, rupture, leakage or overflow of any plumbing or other pipes (including, without limitation, water, steam, and/or refrigerant lines), sprinklers, tanks, drains, drinking fountains or washstands, or other similar cause in, above, upon or about the Premises, the Building, or the Project.

6. Landlord makes no representation with respect to the adequacy or fitness of the air-conditioning or ventilation equipment in the Building to maintain temperatures which may be required for, or because of, any equipment of Tenant, other than normal fractional horsepower office equipment, and Landlord shall have no liability for loss or damage in connection therewith. Tenant shall not, without Landlord's prior written consent, use, equipment or lighting in a quantity or of a type which is not typical for office use and, as a result, would materially and adversely the temperature otherwise maintained by the air conditioning system or increase the water normally furnished for the Premises by Landlord pursuant to the terms of this Paragraph 5. If such consent is given, Landlord shall have the right to install supplementary air conditioning units or other facilities in the Premises, including supplementary or additional metering devices, and the cost thereof, including the cost of installation, operation and maintenance, increased wear and tear on existing equipment and other similar charges, shall be paid by Tenant to Landlord upon billing by Landlord. Tenant shall not use water or heat or air conditioning in excess of that normally supplied by Landlord. Tenant's consumption of electricity shall not exceed the Building's capacity considering all other tenants of the Building. If Tenant uses water, or natural gas, heat or air conditioning in excess of the supplied by Landlord pursuant to Paragraph 5(a) of this Lease, Tenant shall pay, within thirty (30) days after billing, the actual cost, without profit or overhead, of such excess consumption, the cost of the installation, operation, and maintenance of equipment which is installed in order to supply such excess consumption, and the cost of the increased wear and tear on existing equipment caused by such excess consumption; and Landlord may install devices to separately meter any increased use and in such event Tenant shall pay the increased cost directly to Landlord, within thirty (30) days after billing, at the rates charged by the public utility company furnishing the same, including the cost of such additional metering devices. Tenant's use of electricity shall never exceed the capacity of the feeders to the Project or the risers or wiring installation

6. LATE CHARGE

Notwithstanding any other provision of this Lease to the contrary, Tenant hereby acknowledges that late payment to Landlord of Rent, or other amounts due hereunder will cause Landlord to incur

costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain and prove. If any Rent or other sums due from Tenant are not received by Landlord or by Landlords designated agent within five (5) days after their due date, then Tenant shall pay to Landlord a late charge equal to five percent (5%) of such overdue amount, plus any costs and attorneys' fees incurred by Landlord by reason of Tenant's failure to pay Rent and/or other charges when due hereunder. Landlord and Tenant hereby agree that such late charges represent a fair and reasonable estimate of the cost that Landlord will incur by reason of Tenant's late payment that it will be neither convenient nor feasible for Landlord to obtain an otherwise adequate remedy, and that such late charges shall not be construed as a penalty. Landlord's acceptance of such late charges shall not constitute a waiver of Tenant's default with respect to such overdue amount or stop Landlord from exercising any of the other rights and remedies granted under this Lease. In the event that Y2K presents a banking problem, Tenant may hand deliver check to Management office prior to the due date and no late charges will be applied. They may continue this until such time that the bank has corrected any problems.

Initials: Landlord _____Tenant _____

7. SECURITY DEPOSIT

Concurrently with Tenant's execution of the Lease, Tenant shall deposit with Landlord the Security Deposit specified in the Basic Lease Information as security for the full and faithful performance of each and every term, covenant and condition of this Lease. Landlord may use, apply or retain the whole or any part of the Security Deposit as may be reasonably necessary (a) to remedy any Default by Tenant under this Lease, (b) to repair damage to the Premises caused by Tenant, (c) to clean the Premises upon termination of this Lease, (d) to reimburse Landlord for the payment of any amount which Landlord may reasonably spend or be required to spend by reason of Tenant's Default, and (e) to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's Default. Should Tenant faithfully and fully comply with all of the terms, covenants and conditions of this Lease, within thirty (30) days following the expiration of the Term, the Security Deposit or any balance thereof shall be returned to Tenant or, at the option of Landlord, to the last assignee of Tenant's interest in this Lease. Landlord shall not be required to keep the Security Deposit separate from its general funds and Tenant shall not be entitled to any interest on such deposit. If Landlord so uses or applies all or any portion of said deposit, within five (5) days after written demand therefor Tenant shall deposit cash with Landlord in an amount sufficient to restore the Security Deposit to the full extent of the above amount, and Tenant's failure to do so shall be a default under this Lease. In the event Landlord transfers its interest in this Lease, Landlord shall transfer the then remaining amount of the Security Deposit to Landlord's successor in interest, and thereafter Landlord shall have no further liability to Tenant with respect to such Security Deposit.

On or before the date hereof, Tenant shall deposit with Landlord a clean, irrevocable and unconditional letter of credit in a form acceptable to Landlord in its sole discretion ("Letter of Credit") issued by a bank approved by Landlord in its sole judgment (hereinafter referred to as the "Bank") in favor of Landlord, in the amount of One hundred nineteen thousand four hundred thirty

nine dollars and No/100 Dollars ($119,439) as security for the faithful performance and observance by Tenant of the terms, conditions and provisions of this Lease, including without limitation the surrender of possession of the Premises to Landlord as herein provided. The Letter of Credit shall have a term which expires no sooner than the Expiration Date, or Tenant may deliver a one (1) year unconditional and irrevocable Letter of Credit which by its terms automatically, for the remainder of the Term, renews for successive one (1) year periods unless the Bank provides no less than thirty (30) days' written notice to Landlord that such Letter of Credit shall not be renewed, in which event Landlord shall have the right to draw down the entire amount of the Letter of Credit unless Tenant substitutes, prior to the expiration of such letter of Credit, a new Letter of Credit which meets the requirements of this Paragraph 7. If Tenant defaults in respect of any of the terms, conditions or provisions of this Lease including, but not limited to, the payment of Rent, and Tenant fails to cure any such default after any required notice and within any applicable cure period hereunder (i) Landlord shall have the right to require the Bank to make payment to Landlord or its designee of the entire proceeds of the Letter of Credit, and (ii) Landlord may, at the option of Landlord (but Landlord shall not be required to) apply or retain the whole or any part of such sum so paid to it by Tenant or the Bank to the extent required for the payment of any Rent or any other sum as to which Tenant is in default, and (iii) Landlord or any Superior Mortgagee shall hold the remainder of such sum paid to it by the Bank or Tenant, if any, for Landlord's benefit, as security for the faithful performance and observance by Tenant of the terms, covenants, and conditions of this Lease on Tenant's part to be observed and performed, with the same rights as hereinabove set forth to apply or retain the same in the event of any further default by Tenant under this Lease. If Landlord applies or retains any part of the proceeds of the Letter of Credit or the cash amount deposited by Tenant, Tenant, within five (5) business days after demand, shall deposit with Landlord or its designee the amount so applied or retained so that Landlord or its designee shall have the full deposit on hand at all times during the Term of this Lease (and any extension). Tenant's failure to do so

within ten (10) days of receipt of such demand shall constitute a breach of this Lease.

Tenant, at any time during the term hereof (including any extension and including prior to the Commencement Date), but at least sixty (60) days prior to the expiration of the Letter of Credit, may deposit with Landlord the equivalent cash amount as security hereunder in lieu of the Letter of Credit. Landlord shall have all of the same rights with respect to such cash security as Landlord has hereunder with respect to the Letter of Credit, and Tenant shall have the same obligations with respect to the deposit of additional funds with Landlord if Landlord applies or retains all or any portion of such cash security as provided in the previous subsection. Landlord shall not be required to deposit such cash in a segregated, interest bearing account. Tenant's letter of credit may be declined at the following intervals: $38,513 after the 13th month, $38,513 after the 25th month, and $42,413 after the 37th month.

In the event of a transfer, sale or lease of Landlord's interest in the Building, Landlord shall transfer or cause to be transferred either the cash or Letter of Credit or any sums collected thereunder by Landlord, together with any other sums then held by Landlord or its designee as such security, to the transferee, vendee or lessee, and Landlord thereupon shall be released by Tenant from all liability under this Paragraph. Tenant agrees to look solely to the new landlord for the return of the

cash or Letter of Credit or any sums collected thereunder and any other security, and it is agreed that the provisions hereof shall apply to every transfer or assignment made of the Letter of Credit or any sums collected thereunder and any other security to a new landlord. Tenant further covenants that it shall not assign or encumber, or attempt to assign or encumber, any part of such security and that neither Landlord nor its successors or assigns shall be bound by any such assignment, encumbrance, attempted assignment, or attempted encumbrance. Landlord shall not be required to exhaust its remedies against Tenant before having recourse to the Letter of Credit or such cash security held by Landlord. Recourse by Landlord to the Letter of Credit or such security shall not affect any remedies of Landlord which are provided in this Lease or which are available to Landlord in law or equity.

In the event that Tenant shall fully and faithfully comply with all of the terms, provisions, covenants and conditions of this Lease, the Letter of Credit and/or cash together with all interest earned thereon, if any, except as same may have been applied by Landlord in accordance with this Lease, shall be returned to Tenant promptly after the expiration of this Lease.

8. POSSESSION

1. TENANT'S RIGHT OF POSSESSION. Subject to Paragraph 8(b), Tenant shall be entitled to possession of the Premises as of the Commencement Date.

2. DELAY IN DELIVERING POSSESSION. If for any reason whatsoever, Landlord cannot deliver possession of the Premises to Tenant on or before the Estimated Commencement Date, this Lease shall not be void or voidable, nor shall Landlord, or Landlords agents, advisors, employees, partners, shareholders, directors, invitees, independent contractors or Landlord's Investment Advisors (as hereinafter defined) (collectively, "Landlord's Agents"), be liable to Tenant for any loss or damage resulting therefrom. Tenant shall not be liable for Rent until Landlord delivers possession of the Premises to Tenant. The Expiration Date shall be extended by the same number of days that Tenant's possession of the Premises was delayed beyond the Estimated Commencement Date.

9. USE OF PREMISES

1. PERMITTED USE. The use of the Premises by Tenant and Tenant's agents, advisors, employees, partners, shareholders, consultants, directors, customers, invitees and independent contractors (collectively, "Tenant's Agents") shall be solely for the Permitted Use specified in the Basic Lease Information and for no other use. Tenant shall not permit any objectionable or unpleasant odor, smoke, dust, gas, noise or vibration to emanate from or near the Premises. The Premises shall not be used to create any nuisance or trespass, for any illegal purpose, for any purpose not permitted by Laws (as hereinafter defined), for any purpose that would invalidate the insurance or

increase the premiums for insurance on the Premises, the Building or the Project or for any purpose or in any manner that would interfere with other tenants' use or occupancy of the Project. If any of Tenant's office machines or equipment disturb any other tenant in the Building, then Tenant shall provide adequate insulation or take such other action as may be necessary to eliminate the noise or disturbance. Tenant agrees to pay to Landlord, as Additional Rent, any increases in premiums on

insurance policies resulting from Tenant's Permitted Use or any other use or action by Tenant or Tenant's Agents which increases Landlord's premiums or requires additional coverage by Landlord to insure the Premises. Tenant agrees not to overload the floor(s) of the Building.

2. COMPLIANCE WITH GOVERNMENTAL REGULATIONS AND PRIVATE RESTRICTIONS. Tenant and Tenant's Agents shall, at Tenant's expense, faithfully observe and comply with (1) all municipal, state and federal laws, statutes, codes, rules, regulations, ordinances, requirements, and orders (collectively, "Laws"), now in force or which may hereafter be in force pertaining to the Premises or Tenant's use of the Premises, the Building or the Project; (2) all recorded covenants, conditions and restrictions affecting the Project ("Private Restrictions") now in force or which may hereafter be in force; and (3) the Reasonable Rules and Regulations (as defined in Paragraph 41 of this Lease as determined by Landlord). Without limiting the generality of the foregoing, to the extent Landlord is required by the city or county in which the Building is located to maintain carpooling and public transit programs, Tenant shall cooperate, in the implementation and use of these programs by and among Tenant's employees. The judgment of any court of competent jurisdiction, or the admission of Tenant in any action or proceeding against Tenant, whether Landlord be a party thereto or not, that Tenant has violated any Laws or Private Restrictions, shall be conclusive of that fact as between Landlord and Tenant.

3. COMPLIANCE WITH AMERICANS WITH DISABILITIES ACT. Landlord and Tenant hereby agree and acknowledge that the Premises, the Building and/or the Project may be subject to, among other Laws, the requirements of the Americans with Disabilities Act, a federal law codified at 42 U.S.C. 12101 et seq., including, but not limited to Title III thereof, and all regulations and guidelines related thereto, together with any and all laws, rules, regulations, ordinances, codes and statutes now or hereafter enacted by local or state agencies having jurisdiction thereof, as the same may be in effect on the date of this Lease and may be hereafter modified, amended or supplemented (collectively, the "ADA"). Any Tenant Improvements to be constructed hereunder shall be in compliance with the requirements of the ADA, and all costs incurred for purposes of compliance therewith shall be a part of and included in the costs of the Tenant Improvements. Tenant shall be solely responsible for conducting its own independent investigation of this matter and for ensuring that the design of all Tenant Improvements strictly complies with all requirements of the ADA. Subject to reimbursement pursuant to Paragraph 4 above, if any barrier removal work or other work is required to the Building, the Common Areas or the Project under the ADA, then such work shall be the responsibility of Landlord; provided, if such work is required under the ADA as a result of Tenant's use of the Premises or any work or Alteration (as hereinafter defined) made to the Premises by or on behalf of Tenant, then such work shall be performed by Landlord at the sole cost and expense of Tenant. Except as otherwise expressly provided in this provision, Tenant shall be responsible at its sole cost and expense for fully and faithfully complying with all applicable requirements of the ADA. Within ten (10) days after receipt, Tenant shall advise Landlord in writing, and provide Landlord with copies of (as applicable), any notices alleging violation of the ADA relating to any portion of the Premises, the Building or the Project; any claims made or threatened orally or in writing regarding noncompliance with the ADA and relating to any portion of the Premises, the Building, or the Project; or any governmental or regulatory actions or investigations

instituted or threatened regarding noncompliance with the ADA and relating to any portion of the Premises, the Building or the Project. Tenant shall and hereby agrees to protect, defend (with counsel acceptable to Landlord) and

hold Landlord and Landlord's Agents harmless and indemnify Landlord and Landlord's Agents from and against all liabilities, damages, claims, losses, penalties, judgments, charges and expenses (including attorneys' fees, costs of court and expenses necessary in the prosecution or defense of any litigation including the enforcement of this provision) arising from or in any way related to, directly or indirectly, Tenants or Tenant's Agents violation or alleged violation of the ADA. Tenant agrees that the obligations of Tenant herein shall survive the expiration or earlier termination of this Lease.

4. NO ROOF ACCESS. At no time during the Term shall Tenant have access to the roof of the Building or have the right to install, operate or maintain a satellite-earth communications station (antenna and associated equipment), microwave equipment and/or an FM antenna on the Building or the Project.

10. ACCEPTANCE OF PREMISES

By entry hereunder, Tenant accepts the Premises as suitable for Tenant's intended use and as being in good and sanitary operating order, condition and repair, AS IS, and without representation or warranty by Landlord after the first thirty (30) days of occupancy as to the condition, use or occupancy which may be made thereof. Any exceptions to the foregoing must be by written agreement executed by Landlord and Tenant. To the best of Landlord's knowledge, Landlord represents that an system are operable and in good repair, that the building complies with all laws, and that there are no known hazardous substances located in, on, under, or above the Building and Premises.

11. SURRENDER

Tenant agrees that on the last day of the Tenn, or on the sooner termination of this Lease, Tenant shall surrender the premises to Landlord (a) in good condition and repair (damage by acts of God, fire, and normal wear and tear excepted), but with all interior walls cleaned and repaired, any carpets cleaned, and all floors cleaned and waxed, and (b) otherwise in accordance with Paragraph 32(e). Normal wear and tear shall not include any damage or deterioration that would have been prevented by proper maintenance by Tenant or Tenant otherwise performing all of its obligations under this Lease. On or before the expiration or sooner termination of this Lease, (i) Tenant shall remove all of Tenant's Property (as hereinafter defined) and Tenant's signage from the Premises, the Building and the Project and repair any damage caused by such removal, and (ii) Landlord may, by notice to Tenant given not later than ninety (90) days prior to the Expiration Date (except in the event of a termination of this Lease prior to the scheduled Expiration Date, in which event no advance notice shall be required), require Tenant at Tenants expense to remove any or all Alterations and to repair any damage caused by such removal except those installed in the original tenant improvement or approved in writing to not remove. Any of Tenant's Property not so removed by Tenant as required herein shall be deemed abandoned and may be stored, removed, and disposed

of by Landlord at Tenant's expense, and Tenant waives all claims against Landlord for any damages resulting from Landlord's retention and disposition of such property; provided, however, that Tenant shall remain liable to Landlord for all costs incurred in storing and disposing of such abandoned property of Tenant. All Tenant Improvements and Alterations except those which Landlord requires Tenant to remove shall remain in the Premises as the property of Landlord.

12. ALTERATIONS AND ADDITIONS

1. Tenant shall not make, or permit to be made, any alteration, addition or improvement (hereinafter referred to individually as an "Alteration" and collectively as the ("Alterations") to the Premises or any part thereof without the prior written consent of Landlord, which consent shall not be unreasonably withheld, delayed or conditioned; provided, however, that Landlord shall have the right in its sole and absolute discretion to consent or to withhold its consent to any Alteration which affects the structural portions of the Premises, the Building or the Project or the Systems serving the Premises, the Building and/or the Project or any

portion thereof.

2. Any Alteration to the Premises shall be at Tenant's sole cost and expense, in compliance with all applicable Laws and all requirements requested by Landlord, including, without limitation, the requirements of any insurer providing coverage for the Premises or the Project or any part thereof, and in accordance with plans and specifications approved in, writing by Landlord, and shall be constructed and installed by a contractor approved in writing by Landlord. In connection with any Alteration, Tenant shall deliver plans and specifications therefor to Landlord. As a further condition to giving consent, Landlord may require Tenant to provide Landlord, at Tenant's sole cost and expense, a payment and performance bond in form acceptable to Landlord, in a principal amount not less than one and one-half times the estimated costs of such Alterations, to ensure Landlord against any liability for mechanic's and materialmen's liens and to ensure completion of work. Before Alterations may begin, valid building permits or other permits or licenses required must be finished to Landlord, and, once the Alterations begin, Tenant will diligently and continuously pursue their completion. Landlord may monitor construction of the Alterations and Tenant shall reimburse Landlord for its costs (including, without limitation, the costs of any construction manager retained by Landlord) in reviewing plans and documents and in monitoring construction. Tenant shall maintain during the course of construction, at its sole cost and expense, builders' risk insurance for the amount of the completed value of the Alterations on an all-risk non-reporting form covering all improvements under construction, including building materials, and other insurance in amounts and against such risks as Landlord shall reasonably require in connection with the Alterations. In addition to and without limitation on the generality of the foregoing, Tenant shall ensure that its contractors procure and maintain in full force and effect during the course of construction a "broad form" commercial general liability and property damage policy of insurance naming Landlord, Tenant, Landlord's Investment Advisors, any property manager designated by Landlord and Landlord's lenders as additional insureds. The minimum limit of coverage of the aforesaid policy shall be in the amount of not less than Two Million Dollars ($2,000,000.00) for injury or death of one person in any one accident or occurrence and in the amount of not less than Two Million Dollars

($2,000,000.00) for injury or death of more than one person in any one accident or occurrence, and shall contain a severability of interest clause or a cross liability endorsement. Such insurance shall further insure Landlord and Tenant against liability for property damage of at least Five Hundred Thousand ($500,000.00).

3. All Alterations, including, but not limited to, heating, lighting, electrical, air conditioning, fixed partitioning, drapery, wall covering and paneling, built-in cabinet work and carpeting installations made by Tenant, together with all property that has become an integral part of the Premises or the Building, shall at once be and become the property of Landlord, and shall not be deemed trade fixtures or Tenant's Property. None of the Tenant Improvements constructed pursuant to Exhibit "B" nor the Schedule to be attached as "B-1" (the Final Plans") will have to be removed at the expiration of the Lease.

4. Notwithstanding anything herein to the contrary, before installing any equipment or lights which generate an undue amount of heat in the Premises, or if Tenant plans to use any high-power usage equipment in the Premises, Tenant shall obtain the written permission of Landlord. Landlord may refuse to grant such permission unless Tenant agrees to pay the costs to Landlord for installation of supplementary air conditioning capacity or electrical systems necessitated by such equipment.

5. Tenant agrees not to proceed to make any Alterations, notwithstanding consent from Landlord to do so, until Tenant notifies Landlord in writing of the date Tenant desires to commence construction or installation of such Alterations and Landlord has approved such date in writing, in order that Landlord may post appropriate notices to avoid any liability to contractors or material suppliers for payment for Tenant's improvements. Tenant will at all times permit such notices to be posted and to remain posted until the completion of work..

6. Tenant shall not, at any time prior to or during the Term, directly or indirectly employ, or permit the employment of, any contractor, mechanic or laborer in the Premises, whether in connection with any Alteration or otherwise, if it is reasonably forseeable that such employment will materially interfere or cause any material conflict with other contractors, mechanics, or laborers engaged in the construction, maintenance or operation of the Project by Landlord, Tenant or others. In the event of any such interference or conflict, Tenant, upon demand of Landlord, shall cause all contractors, mechanics or laborers causing such interference or conflict to leave the Project immediately.

13. MAINTENANCE AND REPAIRS OF PREMISES

1. MAINTENANCE BY TENANT. Throughout the Term, Tenant shall, at its sole expense, subject to Paragraphs 5(a) and 13(b) hereof, (1) keep and maintain in good order and condition the Premises and Tenant's Property, (2) keep and maintain in good order and condition, repair and replace all of Tenant's security systems in or about or serving the Premises, and (3) maintain and replace all specialty lamps, bulbs, starters and ballasts. Tenant shall not do nor shall Tenant allow

Tenant's Agents to do anything to cause any damage, deterioration or unsightliness to the Premises, the Building or the Project.

2. MAINTENANCE BY LANDLORD. Subject to the provisions of Paragraphs 13(a), 21 and 22, and further subject to Tenant's obligation under Paragraph 4 to reimburse Landlord, in the form of Additional Rent, for Tenant's Proportionate Share(s) of the cost and expense of the following items, Landlord agrees to repair and maintain the following items: the roof coverings (provided that Tenant installs no additional air conditioning or other equipment on the roof that damages the roof coverings, in which event Tenant shall pay all costs resulting from the presence of such additional equipment); the Systems serving the Premises and the Building; and the Parking Areas, pavement, landscaping, sprinkler systems, sidewalks, driveways, curbs, and lighting systems in the Common Areas. Subject to the provisions of Paragraphs 13(a), 21 and 22, Landlord, at its own cost and expense, agrees to repair and maintain the following items: the structural portions of the roof (specifically excluding the roof coverings), the foundation, the footings, the floor slab, and the load-bearing walls and exterior walls of the Building (excluding any glass and any routine maintenance, including, without limitation, any painting, sealing, patching and waterproofing of such walls). Notwithstanding anything in this Paragraph 13 to the contrary, Landlord shall have the right to either repair or require Tenant to repair any damage to any portion of the Premises, the Building and/or the Project caused by or created due to any act, omission, negligence or willful misconduct of Tenant or Tenant's Agents and to restore the Premises, the Building and/or the Project, as applicable, to the condition existing prior to the occurrence of such damage; provided, however, that in the event Landlord elects to perform such repair and restoration work, Tenant shall reimburse Landlord upon demand for all costs and expenses incurred by Landlord in connection therewith. Landlord's obligation hereunder to repair and maintain is subject to the condition precedent that Landlord shall have received written notice of the need for such repairs and maintenance and a reasonable time to perform such repair and maintenance. Tenant shall promptly report in writing to Landlord any defective condition known to it which Landlord is required to repair, and failure to so report such defects shall make Tenant responsible to Landlord for any liability incurred by Landlord by reason of such condition.

14. LANDLORD'S INSURANCE

Landlord shall purchase and keep in force fire, extended coverage and "all risk" insurance covering the Building and the Project. Tenant shall, at its sole cost and expense, comply with any and all reasonable requirements pertaining to the Premises, the Building and the Project of any insurer necessary for the maintenance of reasonable fire and commercial general liability insurance, covering the Building and the Project. Landlord may maintain "Loss of Rents" insurance, insuring that the Rent will be paid in a timely manner to Landlord for a period of at least twelve (12) months if the Premises, the Building or the Project or any portion thereof are destroyed or rendered unusable or inaccessible by any cause insured against under this Lease.

15. TENANT'S INSURANCE

1. COMMERCIAL GENERAL LIABILITY INSURANCE. Tenant shall, at Tenant's expense, secure and keep in force a "broad form" commercial general liability insurance and property damage policy covering the Premises, insuring Tenant, and naming Landlord, Landlord's investment advisors and agents from time to time, including, without limitation, Allegis Realty Investors LLC (collectively "LANDLORD'S INVESTMENT ADVISORS"), and Landlord's lenders as additional insureds, against any liability arising out of the ownership, use, occupancy or maintenance of the Premises. The minimum limit of coverage of such policy shall be in the amount of not less than Two Million Dollars ($2,000,000.00), for injury or death of one person in any one accident or occurrence and in the amount of not less than Two Million Dollars ($2,000,000.00) for injury or death of more than one person in any one accident or occurrence, shall include an extended liability endorsement providing contractual liability coverage (which shall include coverage for Tenant's indemnification obligations in this Lease), and shall contain a severability of interest clause or a cross liability endorsement. Such insurance shall further insure Landlord and Tenant against liability for property damage of at least Two Million Dollars ($2,000,000.00). Landlord may from time to time require reasonable increases in any such limits if Landlord believes that additional coverage is necessary or desirable. The limit of any insurance shall not limit the liability of Tenant hereunder. No policy maintained by Tenant under this Paragraph 15(a) shall contain a deductible greater than Two Thousand Five Hundred and No/100 Dollars ($2,500.00). No policy shall be cancelable or subject to reduction of coverage without thirty (30) days' prior written notice to Landlord. Such policies of insurance shall be issued as primary policies and not contributing with or in excess of coverage that Landlord may carry, by an insurance company authorized to do business in the state/commonwealth in which the Premises are located for the issuance of such type of insurance coverage and rated B+:XHI or better in Best's Key Rating Guide.

2. PERSONAL PROPERTY INSURANCE. Tenant shall maintain in full force and effect on all of its personal property, furniture, furnishings, trade or business fixtures and equipment (collectively, "Tenant's Property") on the Premises, a policy or policies of fire and extended coverage insurance with standard coverage endorsement to the extent of the full replacement cost thereof. No such policy shall contain a deductible greater than Two Thousand Five Hundred and No/100 Dollars ($2,500.00). During the term of this Lease the proceeds from any such policy or policies of insurance shall be used for the repair or replacement of the fixtures and equipment so insured. Landlord shall have no interest in the insurance upon Tenant's equipment and fixtures and will sign all documents reasonably necessary in connection with the settlement of any claim or loss by Tenant. Landlord will not carry insurance on Tenant's possessions.

3. WORKER'S COMPENSATION INSURANCE; EMPLOYER'S LIABILITY INSURANCE. Tenant shall, at Tenant's expense, maintain in full force and effect worker's compensation insurance with not less than the minimum limits required by law, and employees liability insurance with a minimum limit of coverage of Five Hundred Thousand ($500,000.00)

4. EVIDENCE OF COVERAGE. Tenant shall deliver to Landlord certificates of insurance

and true and complete copies of any and all endorsements required herein for all insurance required to be maintained by Tenant hereunder at the time of execution of this Lease by Tenant. Tenant shall, at least thirty (30) days prior to expiration of each policy, furnish Landlord with certificates of renewal thereof. Each certificate shall expressly provide that such policies shall not be cancelable or otherwise subject to modification except after thirty (30) days' prior written notice to Landlord and the other parties named as additional insureds as required in this Lease (except for cancellation for nonpayment of premium, in which event cancellation shall not take effect until at least ten (10) days' notice has been given to Landlord).

16. INDEMNIFICATION

1. OF LANDLORD. Tenant shall defend, protect, indemnify and hold harmless Landlord and Landlord's Agents against and from any and all claim, suits, liabilities, judgments, costs, demands, causes of action and expenses (including, without limitation, reasonable attorneys' fees, costs and disbursements) arising from (1) the use of the Premises, the Building or the Project by Tenant or Tenant's Agents, or from any activity done, permitted or suffered by Tenant or Tenant's Agents in or about the Premises, the Building or the Project, and (2) any act, neglect, fault, willful misconduct or omission of Tenant or Tenant's Agents, or from any breach or default in the terms of this Lease by Tenant or Tenant's Agents, and (3) any action or proceeding brought on account of any matter in items (1) or (2). If any action or proceeding is brought against Landlord by reason of any such claim, upon notice from Landlord, Tenant shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord. As a material part of the consideration to Landlord, Tenant hereby releases Landlord and Landlord's Agents from responsibility for, waives its entire claim of recovery for and assumes all risk of (i) damage to property or injury to persons in or about the Premises, the Building or the Project from any cause whatsoever (except that which is caused by the sole active gross negligence or willful misconduct of Landlord or Landlord's Agents or by the failure of Landlord to observe any of the terms and conditions of this Lease, if such failure has persisted for an unreasonable period of time after written notice of such failure), or (ii) loss resulting from business interruption or loss of income at the Premises. The obligations of Tenant under this Paragraph 16 shall survive any termination of this Lease.

2. NO IMPAIRMENT OF INSURANCE. The foregoing indemnity shall not relieve any insurance carrier of its obligations under any policies required to be carried by either party pursuant to this Lease, to the extent that such policies cover the peril or occurrence that results in the claim that is subject to the foregoing indemnity.

3. OF TENANT. Landlord shall indemnify and hold harmless Tenant and Tenant's Agents against and from any and, all claims, suits, liabilities, judgments, costs, demands, causes of action and expenses (including, without limitation, reasonable attorney's fees, costs and disbursements) arising from the gross negligence or willfull misconduct of Landlord or Landlord's Agents.

17. SUBROGATION

Landlord and Tenant hereby mutually waive any claim against the other and its Agents for any loss or damage to any of their property located on or about the Premises, the Building or the Project that is caused by or results from perils covered by property insurance carried by the respective parties, to the extent of the proceeds of such insurance actually received with respect to such loss or damage, whether or not due to the negligence of the other party or its Agents. Because the foregoing waivers will preclude the assignment of any claim by way of subrogation to an insurance company or any other person, each party now agrees to immediately give to its insurer written notice of the terms of these mutual waivers and shall have their insurance policies endorsed to prevent the invalidation of the insurance coverage because of these waivers. Nothing in this Paragraph 17 shall relieve a party of liability to the other for failure to carry insurance required by this Lease.

18. SIGNS

Tenant shall not place or permit to be placed in, upon, or about the Premises, the Building or the Project any exterior lights, decorations, balloons, flags, pennants, banners, advertisements or notices, or erect or install any signs, windows or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior the Premises without obtaining Landlords prior written consent which may be withheld in Landlord's sole and absolute discretion. Tenant shall remove any sign, advertisement or notice placed on the Premises, the Building or the Project by Tenant upon the expiration of the Term or sooner termination of this Lease, and Tenant shall repair any damage or injury to the Premises, the Building or the Project caused thereby, all at Tenants expense. If any signs are not removed., or necessary repairs not made, Landlord shall have the right to remove the signs and repair any damage or injury to the Premises,

the Building or the Project at Tenant's sole cost and expense. Landlord agrees to permit building standard signage at the entrance to Tenant's space and in the lobby area subject to permit by the City of Tualatin. Landlord will allow Tenant to place signage on the East side of the budding subject to review, permit, and approval by Landlord and City of Tualatin.

19. FREE FROM LIENS

Tenant shall keep the Premises, the Building and the Project free from any liens arising out of any work performed, material finished or obligations incurred by or for Tenant. In the event that Tenant shall not, within ten (10) days following the imposition of any such lien, cause the lien to be released of record by payment or posting of a proper bond, Landlord shall have in addition to all other remedies provided herein and by law the right but not the obligation to cause same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith (including, without limitation, attorneys' fees) shall be payable to Landlord by Tenant upon demand. Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law or that Landlord shall deem proper for the protection of Landlord, the Premises, the Building and the Project, from mechanics' and materialmen's liens. Tenant shall give

to Landlord at least five (5) business days' prior written notice of commencement of any repair or construction on the Premises.

20. ENTRY BY LANDLORD

Tenant shall permit Landlord and Landlord's Agents to enter into and upon the Premises at all reasonable times, for the purpose of inspecting the same or showing the Premises to prospective purchasers, lenders or tenants or to alter, improve, maintain and repair the Premises or the Building as required or permitted of Landlord under the terms hereof, or for any other business purpose, without any rebate of Rent and without any liability to Tenant for any loss of occupation or quiet enjoyment of the Premises thereby occasioned (except for actual damages resulting from the sole active gross negligence or willful misconduct of Landlord); and Tenant shall permit Landlord to post notices of non-responsibility and ordinary "for sale" or "for lease" signs. No such entry shall be construed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction or constructive eviction of Tenant from the Premises. Landlord may temporarily close entrances, doors, corridors, elevators or other facilities without liability to Tenant by reason of such closure in the case of an emergency and when Landlord otherwise deems such closure necessary. Landlord covenants that Landlord and Landlord's Agents will keep confidential any of Tenants business secrets, proprietary materials, confidential information or trade secrets disclosed after any entry.

21. DESTRUCTION AND DAMAGE

1. If the Premises are damaged by fire or other perils covered by extended coverage insurance, Tenant shall give Landlord immediate notice thereof and Landlord shall, at Landlord's option:

In the event of total destruction (which shall mean destruction or damage in excess of twenty-five percent (25%) of the full insurable value thereof) of the Premises, elect either to commence promptly to repair and restore the Premises and prosecute the same diligently to completion, in which event this Lease shall remain in full force and effect; or not to repair or restore the Premises, in which event this Lease shall terminate. Landlord shall give Tenant written notice of its intention within sixty (60) days after the date (the "Casualty Discovery Date") Landlord obtains actual knowledge of such destruction. If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the date of such total destruction.

(2) In the event of a partial destruction (which shall mean destruction or damage to an extent not exceeding twenty-five percent (25%) of the full insurable value thereof) of the Premises for which Landlord will receive insurance proceeds sufficient to cover the cost to repair and restore such partial destruction and, if the damage thereto is such that the Premises

may be substantially repaired or restored to its condition existing immediately prior to such damage or destruction within one hundred eighty days (180) days from the Casualty Discovery Date, Landlord shall commence and proceed diligently with the work of repair and restoration, in which event the Lease shall continue in full force and effect. If such repair and restoration requires longer than one

hundred eighty days (180) days or if the insurance proceeds therefor (plus any amounts Tenant may elect or is obligated to contribute) are not sufficient to cover the cost of such repair and restoration, Landlord may elect either to so repair and restore, in which event the Lease shall continue in full force and effect, or not to repair or restore, in which event the Lease shall terminate. In either case, Landlord shall give written notice to Tenant of its intention within sixty (60) days after the casualty Discovery Date. If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the date of such partial destruction.

(3) Notwithstanding anything to the contrary contained in this Paragraph, in the event of a total destruction of the premises (as defined in subparagraph (a)(1) above) occurring during the last twelve (12) months of the Term, Landlord or Tenant may elect to terminate this Lease by written notice of such election given to the other party-within thirty (30) days after the Casualty Discovery Date.

(b) If the Premises are damaged by any peril not fully covered by insurance proceeds to be received by Landlord, and the cost to repair such damage exceeds any amount Tenant may agree to contribute, Landlord may elect either to commence promptly to repair and restore the Premises and prosecute the same diligently to completion, in which event this Lease shall remain in full force and effect; or not to repair or restore the Premises, in which event this Lease shall terminate. Landlord shall give Tenant written notice of its intention within sixty (60) days after the Casualty Discovery Date. If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the date on which Tenant surrenders possession of the Premises to Landlord, except that if the damage to the Premises materially impairs Tenant's ability to continue its business operations in the Premises, then this Lease shall be deemed to have terminated as of the date such damage occurred.

(c) Notwithstanding anything to the contrary in this Paragraph 21, Landlord shall have the option to terminate this Lease, exercisable by notice to Tenant within sixty (60) days after the Casualty Discovery Date, in each of the following instances:

(1) If more than twenty-five percent (25%) of the full insurable value of the Building or the Project is damaged or destroyed, regardless of whether or not the Premises is destroyed.

(2) If the Building or the Project or any portion thereof is damaged or destroyed and the repair and restoration of such damage requires longer than one hundred eighty (180) days from the Casualty Discovery Date, regardless of whether or not the Premises is destroyed.

(3) If the Building or the Project or any portion thereof is damaged or destroyed and the insurance proceeds therefor are not sufficient to cover the costs of repair and restoration, regardless of whether or not the Premises is destroyed.

(4) If the Building or the Project or any portion thereof is damaged or destroyed

during the last twelve (12) months of the Term, regardless of whether or not the Premises is destroyed.

(d) In the event of repair and restoration as herein provided, the monthly installments of Base Rent shall be abated proportionately in the ratio which Tenant's use of the Premises is impaired during the period of such repair or restoration, but only to the extent of rental abatement insurance proceeds received by Landlord; provided, however, that Tenant shall

not be entitled to such abatement to the extent that such damage or destruction resulted from the acts or inaction of Tenant or Tenant's Agents. Except as expressly provided in the immediately preceding sentence with respect to abatement of Base Rent, Tenant shall have no claim against Landlord for, and hereby releases Landlord and Landlord's Agents from responsibility for and waives its entire claim of recovery for any cost, loss or expense suffered or incurred by Tenant as a result of any damage to or destruction of the Premises, the Building or the Project or the repair or restoration thereof, including, without limitation, any cost, loss or expense resulting from any loss of use of the whole or any part of the Premises, the Building or the Project and/or any inconvenience or annoyance occasioned by such damage, repair or restoration.

(e) If Landlord is obligated to or elects to repair or restore as herein provided, Landlord shall repair or restore only the initial tenant improvements, if any, constructed by Landlord in the Premises pursuant to the terms of this Lease, substantially to their condition existing immediately prior to the occurrence of the damage or destruction; and Tenant shall promptly repair and restore, at Tenant's expense, Tenant's Alterations which were not constructed by Landlord.

22. CONDEMNATION

(a) If twenty-five percent (25%) or more of either the Premises, the Building or the Project or the parking areas for the Building or the Project is taken for any public or quasi-public purpose by any lawful governmental power or authority, by exercise of the right of appropriation, inverse condemnation, condemnation or eminent domain, or sold to prevent such taking (each such event being referred to as a "CONDEMNATION"), Landlord may, at its option, terminate this Lease as of the date title vests in the condemning party. If twenty-five percent (25%) or more of the Premises is taken and if the Premises remaining after such Condemnation and any repairs by Landlord would be untenantable for the conduct of Tenant's business operations, Tenant shall have the right to terminate this Lease as of the date title vests in the condemning party. If either party elects to terminate this Lease as provided herein, such election shall be made by written notice to the other party given within thirty (30) days after the nature and extent of such Condemnation have been finally determined. If neither Landlord nor Tenant elects to terminate this Lease to the extent permitted above, Landlord shall promptly proceed to restore the Premises, to the extent of any Condemnation award received by Landlord, to substantially the, same condition as existed prior to such Condemnation, allowing for the reasonable effects of such Condemnation, and a proportionate abatement shall be made to the Base Rent corresponding to the time during which, and to the portion of the floor area of the Premises (adjusted for any increase thereto resulting from any reconstruction) of which, Tenant is deprived on account of such Condemnation and restoration, as reasonably

determined by Landlord. Except as expressly provided in the immediately preceding sentence with respect to abatement of Base Rent, Tenant shall have no claim against Landlord for, and hereby releases Landlord and Landlord's Agents from responsibility for and waives its entire claim of recovery for any cost, loss or expense suffered or incurred by Tenant as a result of any Condemnation or the repair or restoration of the Premises, the Building or the Project or the parking areas for the Building or the Project following such Condemnation, including, without limitation, any cost, loss or expense resulting from any loss of use of the whole or any part of the Premises, the Building, the Project or the parking areas and/or any inconvenience or annoyance occasioned by such Condemnation, repair or restoration.

(b) Landlord shall be entitled to any and all compensation, damages, income, rent, awards, or any interest therein whatsoever which may be paid or made in connection with any Condemnation, and Tenant shall have no claim against Landlord for the value of any unexpired term of this Lease or otherwise; provided, however, that Tenant shall be entitled to claim and recover from the condemning authority a separate award for Tenant's relocation, expenses, and the value of Tenant's removable personal property and Trade Fixtures and the unamortized cost of leasehold improvements paid for by Tenant, excluding any Tenant Improvements made or paid for by landlord, provided that such award does not reduce any award otherwise allocable or payable to Landlord.

23. ASSIGNMENT AND SUBLETTING

(a) Tenant shall not voluntarily or by operation of law, (1) mortgage, pledge, hypothecate or encumber this Lease or any interest herein, (2) assign or transfer this Lease or any interest herein, sublease the Premises or any part thereof, or any right or privilege appurtenant thereto, or allow any other person (the employees and invitees of Tenant excepted) to occupy or use the Premises, or any portion thereof, without first obtaining the written consent of Landlord, which consent shall not be withheld unreasonably as set forth below in this Section 23, provided that (i) Tenant is not then in Default under this Lease nor is any event then occurring which with the giving of notice or the passage of time, or both, would constitute a Default hereunder, and (ii) Tenant has not previously assigned or transferred this Lease or any interest herein or subleased the Premises or any part thereof, except for a public offering of stock or a private sale of stock to raise capital. A transfer of greater than a fifty percent (50%) interest (whether stock, partnership interest, membership interest or otherwise) of Tenant, either in one (1) transaction or a series of transactions shall be deemed to be an assignment under this Lease. Notwithstanding the foregoing, Tenant may assign or sublease part or all of the Premises without Landlord's consent to: (i) any corporation or partnership that controls, is controlled by, or is under common control with, Tenant (a "Related Corporation"); or (ii) any corporation resulting from the merger or consolidation with Tenant or any entity that acquires all of Tenant's assets as a going concern of the business that is being conducted on the Premises, as long as the assignee or sublessee is a bona fide entity and assumes the obligations of Tenant When Tenant requests Landlord's consent to such assignment or subletting, it shall notify Landlord in writing of the name and address of the proposed assignee or subtenant and the nature and character of the business of the proposed assignee or subtenant and shall provide current and prior financial statements for the proposed assignee or subtenant, which financial

statements shall be audited to the extent available and shall in any event be prepared in accordance with generally accepted accounting principles. Tenant shall also provide Landlord with a copy of the proposed sublease or assignment agreement, including all material terms and conditions thereof Landlord shall have the option, to be exercised within thirty (30) days of receipt of the foregoing, to (1) terminate this Lease as of the commencement date stated in the proposed sublease or assignment, (2) sublease or take an assignment, as the case may be, from Tenant of the interest, or any portion thereof, in this Lease and/or the Premises that Tenant proposes to assign or sublease, on the same terms and conditions as stated in the proposed sublet or assignment agreement, (3) consent to the proposed assignment or sublease, or (4) refuse its consent to the proposed assignment or sublease, providing that such consent shall not be unreasonably withheld so long as Tenant is not then in Default under this Lease nor is any event then occurring which with the giving of notice or the passage of time, or both, would constitute a Default hereunder. In the event Landlord elects to terminate this Lease or sublease or take an assignment from Tenant of the interest, or portion thereof, in the Lease and/or the Premises that Tenant proposes to assign or sublease as provided in the foregoing clauses (1) and (2), respectively, then Landlord shall have the additional right to negotiate directly with Tenant's proposed assignee or subtenant and to enter into a direct lease or occupancy agreement with such party on such terms as shall be acceptable to Landlord in its sole and absolute discretion, and Tenant hereby waives any claims against Landlord related thereto, including, without limitation, any claims for any compensation or profit related to such lease or occupancy agreement.

(b) Without otherwise limiting the criteria upon which Landlord may withhold its consent, Landlord shall be entitled to consider all reasonable criteria including, but not limited to, the following: (1) whether or not the proposed subtenant or assignee is engaged in a business which, and the use of the Premises will be in an manner which, is in keeping with the then character and nature of all other tenancies in the Project, (2) whether the use to be made of the Premises by the proposed subtenant or assignee will conflict with any so-called "exclusive" use then in favor of any other tenant of the Building or the Project, and whether such use would be prohibited by any other portion of this Lease, including, but not limited to, any rules and regulations then in effect, or under applicable Laws, and whether such use imposes a greater load upon the Premises and the Building and Project services than imposed by Tenant, (3) the business reputation of the proposed assignee or subtenant who will be managing and operating the business

operations of the assignee or subtenant, and (4) the creditworthiness and financial stability of the proposed assignee in light of the responsibilities involved. In any event, Landlord may withhold its consent to any assignment or sublease, if (i) the actual use proposed to be conducted in the Premises or portion thereof conflicts with the provisions of Paragraph 9(a) or (b) above or with any other lease which restricts the use to which any space in the Building or the Project may be put, (ii) the proposed assignment or sublease requires alterations, improvements or additions to the Premises or portions thereof, unless assignee or subtenant agree to remove and restore the premises to their original condition (iii) the portion of the Premises proposed to be sublet is irregular in shape and/or does not permit safe or otherwise appropriate means of ingress and egress, or does, not comply with governmental safety and other codes. As a further condition to any rights Tenant may have under this Lease to sublet all or any portion of the Premises, Tenant shall offer space for sublease at a starting base rental rate no lower than Landlord's then current highest asking base rental rate for other space in the Project which is

then on the market for direct lease. If there is no space in the Project then currently on the market for direct lease, Tenant shall offer the space for sublease at a starting base rental rate no lower than a rate which is the average of the starting rate for Landlord's last two new leases and/or renewals in the Project, or if Landlord has not entered into two new leases and/or renewals within the immediately preceding six month period, then Tenant shall offer the space for sublease at a starting base rental rate no lower than the fair market rental rate.

(c) If Landlord approves an assignment or subletting as herein provided, Tenant shall pay to Landlord, as Additional Rent, one hundred percent (100%) of the excess, if any, of (1) the rent and any additional rent payable by the assignee or sublessee to Tenant, less reasonable and customary market-based leasing commissions, tenant improvement and legal expenses, if any, incurred by Tenant in connection with such assignment or sublease; minus (2) Base Rent plus Additional Rent allocable to that part of the Premises affected by such assignment or sublease pursuant to the provisions of this Lease, which commissions shall, for purposes of the aforesaid calculation, be amortized on a straight-line basis over the term of such assignment or sublease. The assignment or sublease agreement, as the case may be, after approval by Landlord, shall not be amended without Landlord's prior written consent, and shall contain a provision directing the assignee or subtenant to pay the rent and other sums due thereunder directly to Landlord upon receiving written notice from Landlord that Tenant is in default under this Lease with respect to the payment of Rent. In the event that, notwithstanding the giving of such notice, Tenant collects any rent or other sums from the assignee or subtenant, then Tenant shall hold such sums in trust for the benefit of Landlord and shall immediately forward the same to Landlord. Landlord's collection of such rent and other sums shall not constitute an acceptance by Landlord of attornment by such assignee or subtenant. A consent to one assignment, subletting, occupation or use shall not be deemed to be a consent to any other or subsequent assignment, subletting, occupation or use, and consent to any assignment or subletting shall in no way relieve Tenant of any liability under this Lease. Any assignment or subletting without Landlord's consent shall be void, and shall, at the option of Landlord, constitute a Default under this Lease.

(d) Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully and primarily responsible and liable for the payment of the Rent and for compliance with all of Tenant's other obligations under this Lease (regardless of whether Landlord's approval has been obtained for any such assignment or subletting).

(e) Tenant shall pay Landlord's reasonable fees (including, without limitation, the fees of Landlord's counsel), incurred in connection with Landlord's review and processing of documents regarding any proposed assignment or sublease.

(g) If this Lease is assigned, whether or not in violation of the provisions of this Lease, Landlord may collect Rent from the assignee. If the Premises or any part thereof is sublet or used or occupied by anyone other than Tenant, whether or not in violation of this Lease, Landlord may, after an Event of Default by Tenant, collect Rent from the subtenant or

occupant. In either event,

Landlord may apply the net amount collected to Rent, but no such assignment, subletting, occupancy or collection shall be deemed a waiver of any of the provisions of this Paragraph 23, or the acceptance of the assignee, subtenant or occupant as tenant, or a release of Tenant from the further performance by Tenant of Tenant's obligations under this Lease. The consent by Landlord to an assignment, mortgaging, pledging, encumbering, transfer, use, occupancy or subletting pursuant to any provision of this Lease shall not, except as otherwise provided herein, in any way be considered to relieve Tenant from obtaining the express consent of Landlord to any other or further assignment, mortgaging, pledging, encumbering, transfer, use, occupancy or subletting. References in this Lease to use or occupancy by anyone other than Tenant shall not be construed as limited to subtenants and those claiming under or through subtenants but as including also licensees or others claiming under or through Tenant, immediately or remotely. The listing of any name other than that of Tenant on any door of the Premises or on any directory or in any elevator in the Building, or otherwise, shall not, except as otherwise provided herein, operate to vest in the person so named any right or interest in this Lease or in the Premises, or be deemed to constitute, or serve as a substitute for, or any waiver of, any prior consent of Landlord required under this Paragraph 23.

(h) Each subletting and/or assignment pursuant to this Paragraph shall be subject to all of the covenants, agreements, terms, provision and conditions contained in this Lease and each of the covenants, agreements, terms, provisions and conditions of this Lease shall be automatically incorporated therein. If Landlord shall consent to, or reasonably withhold its consent to, any proposed assignment or sublease, Tenant shall indemnify, defend and hold harmless Landlord against and from any and all loss, liability, damages, costs and expenses (including reasonable counsel fees) resulting from any claims that may be made against Landlord by the proposed assignee or sublessee or by any brokers or other persons claiming a commission or similar in connection with the proposed assignment or sublease.

(i) Notwithstanding anything to the contrary contained in this Section 23, Tenant, upon written notice to Landlord, but without Landlord's consent, may sublet or assign all or any part of the Premises to one or more corporations or other business entities (each herein called a "Related Corporation") which shall control, be controlled by, or be under common control with, Tenant. Concurrently with providing notice to Landlord of the making of a sublease to a Related Corporation, Tenant shall be required to submit reasonably satisfactory evidence that the sublessee is a Related Corporation, together with an executed counterpart of the sublease. As used herein in defining Related Corporation, control must include over fifty percent (50%) of the stock or other voting interest of the controlled corporation or other business entity. Similar evidence that such sublessee continues to be a Related Corporation shall be furnished by Tenant to Landlord within fifteen (15) days after request therefor, provided such request is not made more often than annually. Any sublease to a Related Corporation shall not relieve Tenant from liability under this Lease.

24. TENANT'S DEFAULT

The occurrence of any one of the following events shall constitute an event of default on the part of Tenant ("Default"):

(a) The vacation or abandonment of the Premises by Tenant for a period of thirty (30) consecutive days or any vacation or abandonment of the Premises by Tenant which would cause any insurance policy to be invalidated or otherwise lapse in each of the foregoing cases irrespective of whether or not Tenant is then in monetary default under this Lease. Tenant agrees to notice and service of notice as provided for in this Lease and waives any right to any other or further notice or service of notice which Tenant may have under any statute or law now or hereafter in effect;

(b) Failure to pay any installment of Rent or any other monies due and payable hereunder, said failure continuing for a period of three (3) five (5) days after written notice the same is due;

(c) A general assignment by Tenant or any guarantor or surety of Tenants obligations hereunder, including, without limitation Lease Guarantor, if any, (collectively, "Guarantor") for the benefit of creditors;

(d) The filing of a voluntary petition in bankruptcy by Tenant or any Guarantor, the filing by Tenant or any Guarantor of a voluntary petition for an arrangement, the filing by or against Tenant or any Guarantor of a petition, voluntary or involuntary, for reorganization, or the filing of an involuntary petition by the creditors of Tenant or any Guarantor, said involuntary petition remaining undischarged for a period of sixty (60) days;

(e) Receivership, attachment, or other judicial seizure of substantially all of Tenant's assets on the Premises, such attachment or other seizure remaining undismissed or undischarged for a period of sixty (60) days after the levy thereof;

(f) Death or disability of Tenant or any Guarantor, if Tenant or such Guarantor is a natural person, or the failure by Tenant or any Guarantor to maintain its legal existence, if Tenant or such Guarantor is a corporation, partnership, limited liability company, trust or other legal entity and is not cured within thirty (30) days after written notice;

(g) Failure of Tenant to execute and deliver to Landlord any estoppel certificate, subordination agreement, or lease amendment within the time periods and in the manner required by Paragraphs 30 or 31 or 42, and/or failure by Tenant to deliver to Landlord any financial statement within the time period and in the manner required by Paragraph 40;

(h) An assignment or sublease, or attempted assignment or sublease, of this Lease or the Premises by Tenant contrary to the provision of Paragraph 23, unless such assignment or sublease is expressly conditioned upon Tenant having received Landlord's consent thereto;

(i) Failure of Tenant to restore the Security Deposit to the amount and within the time period provided in Paragraph 7 above;

(j) Failure in the performance of any of Tenant's covenants, agreements or obligations hereunder (except those failures specifically identified as events of Default in this Paragraph 24, which failure continues for thirty (30) days after written notice thereof from Landlord to Tenant, provided that, if Tenant has exercised reasonable diligence to cure such failure and such failure cannot be cured within such thirty (30) day period despite reasonable diligence, Tenant shall not be in default under this subparagraph so long as Tenant thereafter diligently and continuously prosecutes the cure to completion and actually completes such cure within sixty (60) days after the giving of the aforesaid written notice;

(k) Chronic overuse by Tenant or Tenants Agents of the number of undesignated parking spaces set forth in the Basic Lease Information. "Chronic overuse" shall mean use by Tenant or Tenant's Agents of a number of parking spaces greater than the number of parking spaces set forth in the Basic Lease Information more than three (3) times during the Term after written notice by Landlord.

(l) Any insurance required to be maintained by Tenant pursuant to this Lease shall be canceled or terminated or shall expire or be reduced or materially changed, except as permitted in this Lease; and

(m) Any failure by Tenant to discharge any lien or encumbrance placed on the Project or any part thereof in violation of this Lease within ten (10) days after the date such lien or encumbrance is filed or recorded against the Project or any part thereof, provided that Landlord has given Tenant written notice of said lien or encumbrance.

25. LANDLORD'S REMEDIES

(a) TERMINATION. In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease, Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder. In the event that Landlord shall elect to so terminate this Lease or Tenant's right to possession, then

Landlord may recover immediately from Tenant without waiting until the due date for any future rent or until the date fixed for expiration of the lease term.

(1) All unpaid Rent and other sums due under this Lease as of the date of such termination, plus interest accruing on such sums at the rate described in Paragraph 25 (a)(7) below; and

(2) The amount of the loss of Rent and other sums due under this Lease from the date of such termination until a new tenant has been secured, or with the exercise of reasonable diligence could have been secured, plus interest accruing on such sums at the rate described in Paragraph 25(a)(7) below; and

(3) The present value (computed using a discount rate equal to the prime loan rate

of major Oregon banks in effect at the time of the award to Landlord) at the time of such termination of the amount by which the Rent and other obligations of Tenant for the balance of the Term of this Lease exceed the fair rental value of the Premises for such period; and

(4) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course would be likely to result therefrom, including, without limitation, (A) any costs or expenses incurred by Landlord (1) in retaking possession of the Premises; (2) in maintaining, repairing, preserving, restoring, replacing, cleaning, altering, remodeling or rehabilitating the Premises or any affected portions of the Building or the Project, including such actions undertaken in connection with the reletting or attempted reletting of the Premises to a new tenant or tenants; (3) for leasing commissions, advertising costs and other expenses of reletting the Premises; or (4) in carrying the Premises, including taxes, insurance premiums, utilities and security precautions; (B) any unearned brokerage commissions paid in connection with this Lease; (C) reimbursement of any previously waived or abated Base Rent or Additional Rent or any free rent or reduced rental rate granted hereunder; and (D) any concession made or paid by Landlord to the benefit of Tenant in consideration of this Lease including, but not limited to, any moving allowances, contributions, payments or loans by Landlord for tenant improvements or build-out allowances (including without limitation, any unamortized portion of the Tenant Improvement Allowance, as defined in Exhibit B hereto such Tenant Improvement Allowance to be amortized over the Term in the manner reasonably determined by Landlord except those monks spent by Landlord for fire life safety compliance and the construction of showers for the budding), if any, and any outstanding balance (principal and accrued interest) of the Tenant Improvement Loan, if any), or assumptions by Landlord of any of Tenant's previous lease obligations; plus

(5) Such reasonable attorneys' fees incurred by Landlord as a result of a Default, and costs in the event suit is filed by Landlord to enforce such remedy; and

(6) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

(7) All amounts to which Landlord is entitled pursuant to Paragraph 25 (a)(l)(6) above shall bear interest at an annual rate equal to ten percent (10%) per annum.

(b) RE-ENTRY. In the event of any Default by Tenant, Landlord shall also have the right, with or without terminating this Lease, in compliance with applicable law, to re-enter the Premises, by force if necessary, and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant.

(c) RELETTING. In the event of the abandonment of the Premises by Tenant or in the event that Landlord shall elect to re-enter as provided in Paragraph 25(b) or shall take possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, then if

Landlord does not elect to terminate this Lease as provided in Paragraph 25(a), Landlord may from time to time, without terminating this Lease, relet the Premises or any part thereof for such term or terms and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable with the right to make alterations and repairs to the Premises in Landlord's sole discretion. In the event that Landlord shall elect to so relet, then rentals received by Landlord from such releting shall be applied in the following order: (1) to reasonable attorneys' fees incurred by Landlord as a result of a Default and costs in the event suit is filed by Landlord to enforce such remedies; (2) to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; (3) to the payment of any costs of such releting; (4) to the payment of the costs of any alterations and repairs to the Premises; (5) to the payment of Rent due and unpaid hereunder; and (6) the residue, if any, shall be held by Landlord and applied in payment of future Rent and other sums payable by Tenant hereunder as the same may become due and payable hereunder. Should that portion of such rentals received from such releting during any month, which is applied to the payment of Rent hereunder, be less than the Rent payable during the month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any costs and expenses incurred by Landlord in such releting or in making such alterations and repairs not covered by the rentals received from such releting.

(d) TERMINATION. No re-entry or taking of possession of the Premises by Landlord pursuant to this Paragraph 25 shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof is decreed by a court of competent jurisdiction. Notwithstanding any releting without termination by Landlord because of any Default by Tenant, Landlord may at any time after such releting elect to terminate this Lease for any such Default.

(e) CUMULATIVE REMEDIES. The remedies herein provided are not exclusive and Landlord shall have any and all other remedies provided herein or by law or in equity.

(f) NO SURRENDER. No act or conduct of Landlord, whether consisting of the acceptance of the keys to the Premises, or otherwise, shall be deemed to be or constitute an acceptance of the surrender of the Premises by Tenant prior to the expiration of the Term, and such acceptance by Landlord of surrender by Tenant shall only flow from and must be evidenced by a written acknowledgment of acceptance of surrender signed by Landlord. The surrender of this Lease by Tenant, voluntarily or otherwise, shall not work a merger unless Landlord elects in writing that such merger take place, but shall operate as an assignment to Landlord of any and all existing subleases, or Landlord may, at its option, elect in writing to treat such surrender as a merger terminating Tenants estate under this Lease, and thereupon Landlord may terminate any or all such subleases by notifying the sublessee of its election so to do within five (5) days after such surrender.

26. LANDLORD'S RIGHT TO PERFORM TENANT'S OBLIGATIONS

(a) Without limiting the rights and remedies of Landlord contained in Paragraph 25

above, if Tenant shall be in Default in the performance of any of the terms, provisions, covenants or conditions to be performed or complied with by Tenant pursuant to this Lease, then Landlord may at Landlord's option, without any obligation to do so, and upon notice to Tenant perform any such term, provision, covenant, or condition, or make any such payment and Landlord by reason of so doing shall not be liable or 1, responsible for any loss or damage thereby sustained by Tenant or anyone holding under or through Tenant or any of Tenant's Agents.

(b) Without limiting the rights of Landlord under Paragraph 26(a) above, Landlord shall have the right at Landlord's option, without any obligation to do so, to perform any of Tenant's covenants or obligations

under this Lease without notice to Tenant in the case of an emergency, as determined by Landlord in its solo and absolute judgment, or if Landlord otherwise determines in its sole discretion that such performance is necessary or desirable for the proper management and operation of the Building or the Project or for the preservation of the rights and interests or safety of other tenants of the Building or the Project.

(c) If Landlord performs any of Tenant's obligations hereunder in accordance with this Paragraph 26, the full amount of the cost and expense incurred or the payment so made or the amount of the loss so sustained shall immediately be owing by Tenant to Landlord, and Tenant shall promptly pay to Landlord upon demand, as Additional Rent, the full amount thereof with interest thereon from the date of payment by Landlord at the lower of (i) ten percent (10%) per annum, or (ii) the highest rate permitted by applicable law.

27. ATTORNEY'S FEES

(a) If either party hereto fails to perform any of its obligations under this Lease or if any dispute arises between the parties hereto concerning the meaning or interpretation of any provision of this Lease, then the defaulting party or the party not prevailing in such dispute, as the case may be, shall pay any and all costs and expenses incurred by the other party on account of such default and/or in enforcing or establishing its rights hereunder, including, without limitation, court costs and reasonable attorneys' fees and disbursements incurred at or prior to trial and on any appeal.

(b) Without limiting the generality of Paragraph 27(a) above, if Landlord utilizes the services of an attorney for the purpose of collecting any Rent due and unpaid by Tenant, Tenant agrees to pay Landlord actual attorneys' fees as determined by Landlord for such services, regardless of the fact that no legal action may be commenced or filed by Landlord.

28. TAXES

Tenant shall be liable for and shall pay directly to the taxing authority, prior to delinquency, all taxes levied against Tenants Property. If any Alteration installed by Tenant pursuant to Paragraph 12 or any of Tenant's Property is assessed and taxed with the Project or Building, Tenant shall pay such taxes to Landlord within ten (10) business days after delivery to Tenant of a statement therefor.

29. EFFECT OF CONVEYANCE

The term "Landlord" as used in this Lease means, from time to time, the then current owner of the Building or the Project containing the Premises, so that, in the event of any sale of the Building or the Project, Landlord shall be and hereby is entirely freed and relieved of all covenants and obligations of Landlord hereunder, and it shall be deemed and construed, without further agreement between the parties and the purchaser at any such sale, that the purchaser of the Building or the Project has assumed and agreed to carry out any and all covenants and obligations of Landlord hereunder.

30. TENANT'S ESTOPPEL CERTIFICATE

From time to time, upon written request of Landlord, Tenant shall execute, acknowledge and deliver to Landlord or its designee, an Estoppel Certificate in substantially the form attached hereto as Exhibit E and with any other statements reasonably requested by Landlord or its designee. Any such Estoppel Certificate delivered pursuant to this Paragraph 30 may be relied upon by a prospective purchaser of Landlord's interest or a mortgagee of Landlord's interest or assignment of any mortgage upon Landlord's interest in the Premises. If Tenant shall fail to provide such certificate within ten (10) business days of receipt by Tenant of a written request by Landlord as herein provided, such failure shall, at Landlord's election, constitute a Default under this Lease, and Tenant shall be deemed to have given such certificate as above provided without modification and shall be deemed to have admitted the accuracy of any information supplied by Landlord to a prospective purchaser or mortgagee.

31. SUBORDINATION

This Lease, and all rights of Tenant hereunder, are and shall be subject and subordinate to all ground leases, overriding leases and underlying leases affecting the Building or the Project now or hereafter existing and each of the terms, covenants and conditions thereto (the "SUPERIOR LEASE(S)"), and to all mortgages which may now or hereafter affect the Building, the Property or any of such leases and each of the terms, covenants and . conditions thereto (the "SUPERIOR MORTGAGE(S)"), whether or not such mortgages shall also cover other lands, buildings or leases, to each and every advance made or hereafter to be made under such mortgages, and to all renewals, modifications, replacements and extensions of such leases and such mortgages and spreaders and consolidations of such mortgages. This Paragraph shall be self-operative and no further instrument of subordination shall be required. Tenant shall promptly execute, acknowledge and deliver any reasonable instrument that Landlord, the lessor under any such lease or the holder of any such mortgage or any of their respective successors in interest may reasonably request to evidence such subordination; if Tenant fails to execute, acknowledge or deliver any such instrument within ten (io) business days after request therefor, Tenant hereby irrevocably constitutes and appoints Landlord as Tenant's attorney-in-fact, coupled with an interest, to execute and deliver any such instrument for and on behalf of Tenant. As used herein the lessor of a Superior Lease or its successor in interest is herein called "SUPERIOR LESSOR"; and the holder of a Superior Mortgage is herein called "SUPERIOR

MORTGAGEE."

Notwithstanding the foregoing terms of this Paragraph 3 1, if a Superior Lease or Superior Mortgage is hereafter placed against or affecting any or all of the Building or the Demised Premises or any or all of the Building and improvements now or at any time hereafter constituting a part of or adjoining the Building, Landlord shall use reasonable efforts to obtain an agreement from the holder thereof in recordable form and substantially in the form attached hereto as Exhibit F or otherwise in form and substance reasonably acceptable to Tenant, whereby the holder of such Superior Lease or Superior Mortgage agrees that the Tenant, upon paying the Base Rent and all of the Additional Rent and other charges herein provided for, and observing and complying with the covenants, agreements and conditions of this Lease on its part to be observed and complied with, shall lawfully and quietly hold, occupy and enjoy the Premises during the Term of this Lease (including any exercised renewal term), without hindrance or interference from anyone claiming by or through said Superior Mortgagee or Superior Lessor and that said Superior Mortgagee or Superior Lessor shall respect Tenant's rights under the Lease and, upon succeeding to Landlord's interest in the Building and Lease, shall observe and comply with all of Landlord's duties under the Lease.

If any Superior Lessor or Superior Mortgagee shall succeed to the rights of Landlord under this Lease, whether through possession or foreclosure action or delivery of a new lease or deed (such party so succeeding to Landlord's rights herein called "SUCCESSOR LANDLORD"), then Tenant shall attorn to and recognize such Successor Landlord as Tenant's landlord under this Lease (without the need for further agreement) and shall promptly execute and deliver any reasonable instrument that such Successor Landlord may reasonably request to evidence such attornment. This Lease shall continue in full force and effect as a direct lease between the Successor Landlord and Tenant upon all of the terms, conditions and covenants as are set forth in this Lease, except that the Successor Landlord shall not (a) be liable for any previous act or omission of Landlord under this Lease, except to the extent such act or omission shall constitute a continuing Landlord default hereunder; (b) be subject to any offset, not expressly provided for in this Lease; or (c) be bound by any previous modification of this Lease or by any previous prepayment of more than one month's Base Rent, unless such modification or prepayment shall have been expressly approved in writing by the Successor Landlord (or predecessor in interest).

32. ENVIRONMENTAL COVENANTS

(a) As used in this Lease, the term "HAZARDOUS MATERIALS" shall mean and include any substance that is or contains petroleum, asbestos, polychlorinated biphenyls, lead, or any other substance, material or waste which is now or is hereafter classified or considered to be hazardous or

toxic under any federal, state or local law, rule, regulation or ordinance relating to pollution or the protection or regulation of human health, natural resources or the environment including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Section 9601, et. seq., or the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et. seq. or the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et. seq. (collectively "ENVIRONMENTAL LAWS") or poses or threatens to pose a hazard to the

health or safety of persons on the Premises or any adjacent property.

(b) Tenant agrees that during its use and occupancy of the Premises it will not permit Hazardous Materials to be present on or about the Premises except for cleaning supplies and other business supplies customarily used and stored in an office and that it will comply with all Environmental Laws relating to the use, storage or disposal of any such Hazardous Materials.

(c) If Tenant's use of Hazardous Materials on or about the Premises results in a release, discharge or disposal of Hazardous Materials on, in, at, under, or emanating from, the Premises or the property in which the Premises are located, Tenant agrees to investigate, clean up, remove or remediate such Hazardous Materials in full compliance with (a) the requirements of (i) all Environmental Laws and (ii) any governmental agency or authority responsible for the enforcement of any Environmental Laws; and (b) any additional requirements of Landlord that are necessary, in Landlord's sole discretion, to protect the value of the Premises or the property in which the Premises are located. Landlord shall also have the right, but not the obligation, to take whatever action with respect to any such Hazardous Materials that it deems necessary, in Landlord's sole discretion, to protect the value of the Premises or the property in which the Premises are located. All costs and expenses paid or incurred by Landlord in the exercise of such right shall be payable by Tenant upon demand.

(d) Upon reasonable notice to Tenant, Landlord may inspect the Premises for the purpose of determining whether there exists on the Premises any Hazardous Materials or other condition or activity that is in violation of the requirements of this Lease or of any Environmental Laws. The right granted to Landlord herein to perform inspections shall not create a duty on Landlord's part to inspect the Premises, or liability on the part of Landlord for Tenant's use, storage or disposal of Hazardous Materials, it being understood that Tenant shall be solely responsible for all liability in connection therewith.

(e) Tenant shall surrender the Premises to Landlord upon the expiration or earlier termination of this Lease free of debris, waste or Hazardous Materials placed on or about the Premises by Tenant or its agents, employees, contractors or invitees, and in a condition which complies with all Environmental Laws.

(f) Tenant agrees to indemnify and hold harmless Landlord from and against any and all claims, damages, fines, judgments, penalties, costs, losses (including, without limitation, loss in value of the Premises or the property in which the Premises is located, damages due to loss or restriction of rentable or usable space, or any damages due to any adverse impact on marketing of the space and any and all sums paid for settlement of claims), liabilities and expenses (including, without limitation, attorneys' fees, consultant and expert fees) sustained by Landlord during or after the term of this Lease and attributable to (i) any Hazardous Materials placed on or about the Premises, the Building or the Project by Tenant or Tenant's Affiliates, or (ii) Tenant's breach of any provision of this Paragraph 32. This indemnification includes, without limitation, any and all costs incurred due to any investigation of the site or any cleanup, removal or restoration mandated by a

federal, state or local agency or political subdivision.

(g) Landlord shall indemnify, defend and hold Tenant harmless from and against any and all claims, judgments, damages, penalties, fines,

costs, liabilities or losses, including without limitation reasonable attorneys' fees and costs, arising out of any Hazardous Material in, on or about the Project or the Premises as of the Commencement Date of this Lease, excluding however, any Hazardous Material whose presence was caused by Tenant by Tenant or any agents, employees, contractors, or invitees of Tenant.

(h) The provisions of this Paragraph 32 shall survive the expiration or earlier termination of this Lease.

33. NOTICES

All notices and demands which are required or may be permitted to be given to either party by the other hereunder shall be in writing and shall be sent by United States mail, postage prepaid, certified, return receipt requested or a nationally recognized overnight courier, addressed to the addressee at Tenant's Address or Landlord's Address as specified in the Basic Lease Information, or to such other place as either party may from time to time designate in a notice to the other party given as provided herein. Copies of all notices and demands given to Landlord shall additionally be sent to Landlord's property manager at the address specified in the Basic Lease Information or at such other address as Landlord may specify in writing from time to time. Notice shall be deemed given upon actual receipt (or attempted delivery if delivery is refused), if personally delivered, or one (1) business day following deposit with a reputable overnight courier that provides a receipt, or on the third (3rd day following deposit in the United States mail in the manner described above.

34. WAIVER

The waiver of any breach of any term, covenant or condition of this Lease shall not be deemed to be a waiver of such term, covenant or condition or of any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of Rent by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant, other than the failure of Tenant to pay the particular rental so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No delay or omission in the exercise of any right or remedy of Landlord in regard to any Default by Tenant shall impair such a right or remedy or be construed as a waiver. Any waiver by Landlord of any Default must be in writing and shall not be a waiver of any other Default concerning the same or any other provisions of this Lease.

35. HOLDING OVER

Any holding over after the expiration of the Term, without the express written consent of Landlord, shall constitute a Default and, without limiting Landlord's remedies provided in this Lease, such holding over shall be construed to be a tenancy at sufferance, at a rental rate equal to the

greater of one hundred twenty five percent (125%) of the fair market rental value for the Premises as determined by Landlord or one hundred fifty percent (150%) of the Base Rent last due in this Lease, plus Additional Rent, and shall otherwise be on the terms and conditions herein specified, so far as applicable; provided, however, in no event shall any renewal or expansion option, option to purchase, or other similar right or option contained in this Lease be deemed applicable to any such tenancy at sufferance. If the Premises are not surrendered at the end of the Term or sooner termination of this Lease, and in accordance with the provisions of Paragraphs 11 and 32(e), Tenant shall indemnify, defend and hold Landlord harmless from and against and reimburse Landlord for any and all loss or liability resulting from delay by Tenant in so surrendering the Premises including, without limitation, any loss or liability resulting from any claim against Landlord made by any succeeding tenant or prospective tenant founded on or resulting from such delay and losses to Landlord due to lost opportunities to lease any portion of the Premises to any such succeeding tenant or prospective tenant, together with, in each case, actual attorneys' fees and costs.

36. SUCCESSORS AND ASSIGNS

The terms, covenants and conditions of this Lease shall, subject to the provisions as to assignment, apply to and bind the heirs, successors, executors, administrators and assigns of all of the parties hereto. If Tenant

shall consist of more am one entity or person, the obligations of Tenant under this Lease shall be joint and several.

37. TIME

Time is of the essence of this Lease and each and every term, condition and provision herein.

38. BROKERS

Landlord and Tenant each represents and warrants to the other that neither it nor its officers or agents nor anyone acting on its behalf has dealt with any real estate broker except the Broker(s) specified in the Basic Lease Information in the negotiating or making of this Lease, and each party agrees to indemnify and hold harmless the other from any claim or claims, and costs and expenses, including attorneys' fees, incurred by the indemnified party in conjunction with any such claim or claims of any other broker or brokers to a commission in connection with this Lease as a result of the actions of the indemnifying party.

39. LIMITATION OF LIABILITY

Tenant agrees that, in the event of any default or breach by Landlord under this Lease or arising in connection herewith or with Landlord's operation, management, leasing, repair, renovation, alteration or any other matter relating to the Project or the Premises Tenant's remedies shall be limited solely and exclusively to an amount which is equal to the lesser of (a) the interest in the Building of the then current Landlord or (b) the equity interest Landlord would have in the Building if the Building were encumbered by third party debt in an amount equal to eighty percent (80%) of

the value of the Building (as such value is determined by Landlord) provided that in no event shall such liability extend to any sales or insurance proceeds received by Landlord or the "LANDLORD PARTIES" in connection with the Project, Building or Premises. For purposes of this Lease, "Landlord Parties" shall mean, collectively Landlord, its partners, shareholders, officers, directors, employees, investment advisors, or any successor in interest of any of them. Neither Landlord, nor any of the Landlord Parties shall have any personal liability therefor, and Tenant hereby expressly waives and releases such personal liability on behalf of itself and all persons claiming by, through or under Tenant. The limitations of liability contained in this Paragraph 39 shall inure to the benefit of Landlord's and the Landlord Parties' present and future partners, beneficiaries, officers, directors, trustees, shareholders, agents and employees, and their respective partners, heirs, successors and assigns. Under no circumstances shall any present or future partner of Landlord (if Landlord is a partnership), future member in Landlord (if Landlord is a limited liability company) or trustee or beneficiary (if Landlord or any partner or member of Landlord is a trust), have any liability for the performance of Landlord's obligations under this Lease. Notwithstanding any contrary provision herein, neither Landlord nor the Landlord Parties shall be liable under any circumstances for injury or damage to, or interference with Tenant's business, including but not limited to, loss or profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring. The provisions of this section shall apply only to the Landlord and the parties herein described, and shall not be for the benefit of any insurer nor any other third party.

40. FINANCIAL STATEMENTS

Within ten (10) business days after Landlord's request, Tenant shall deliver to Landlord the then most current audited (if available) financial statements of Tenant (including interim periods following the end of the last fiscal year for which annual statements are available), prepared or compiled by a certified public accountant, including a balance sheet and profit and loss statement for the most recent prior year, all prepared in accordance with generally accepted accounting principles consistently applied.

41. RULES AND REGULATIONS

Tenant agrees to comply with the rules and regulations attached hereto as Exhibit D, along with any reasonable modifications, amendments and

supplements thereto, and such reasonable rules and regulations as Landlord may adopt in the future, from time to time, for the orderly and proper operation of the Building and the Project (collectively, the "RULES AND REGULATIONS"). The Rules and Regulations may include, but shall not be limited to, the following: (a) restriction of employee parking to a limited, designated area or areas; and (b) regulation of the removal, storage and disposal of Tenants refuse and other rubbish. The then current Rules and Regulations shall be binding upon Tenant upon delivery of a copy of them to Tenant. Landlord shall net be responsible use commercially reasonable efforts to enforce the Rules and Regulations te T-e for the failure of any other person to observe and abide by any of said Rules and Regulations.

42. MORTGAGEE PROTECTION

(a) MODIFICATIONS FOR LENDER. If, in connection with obtaining financing for the Project or any portion thereof, Landlord's lender shall request reasonable modifications to this Lease as a condition to such financing, Tenant shall not unreasonably withhold, delay or defer its consent to such modifications, provided such modifications do not material adversely affect Tenant's rights or increase Tenant's obligations under this Lease.

(b) RIGHTS TO CURE. Tenant agrees to give to any trust deed or mortgage holder ("HOLDER"), by a method provided for in Paragraph 33 above, at the same time as it is given to Landlord, a copy of any notice of default given to Landlord, provided that prior to such notice Tenant has been notified, in writing, (by way of notice of assignment of rents and leases, or otherwise) of the address of such Holder. Tenant further agrees that if Landlord shall have failed to cure such default within the time provided for in this Lease, then the Holder shall have an additional reasonable period within which to cure such default. If such default cannot be cured without Holder pursuing its remedies against Landlord, then such additional time as may be necessary to commence and complete a foreclosure proceeding, provided Holder commences and thereafter diligently pursues the remedies necessary to cure such default (including but not limited to commencement of foreclosure proceedings, if necessary to effect such cure), in which event this Lease shall not be terminated, but Tenant can offset damages against base rent during any period the default remains uncured.

43. PARKING

(a) Provided that Tenant shall not then be in Default under the terms and conditions of the Lease, and provided further, that Tenant shall comply with and abide by Landlord's parking rules and regulations from time to time in effect, Tenant shall have a license to use for the parking of standard size passenger automobiles the number of exclusive and designated and nonexclusive and undesignated parking spaces, if any, set forth in the Basic Lease Information in the Parking Areas, provided, however, that Landlord shall not be required to enforce Tenant's right to use such parking spaces; and, provided further, that the number of parking spaces allocated to Tenant hereunder shall be reduced on a proportionate basis in the event any of the parking spaces in the Parking Areas are taken or otherwise eliminated as a result of any Condemnation (as defined in Paragraph 22) or casualty event affecting such Parking Areas or any modifications made by Landlord to such Parking Areas. Any act that reduces the available parking ratio less than 3.0/1000 usable square feet to the premises, Tenant shall have the one time option to terminate this Lease with three (3) months' written notice following the actual taking of land. All unreserved spaces will be on a first-come, first-served basis in common with other tenants of and visitors to the Project in parking spaces provided by Landlord from time to time in the Project's Parking Areas. In the event Tenant is granted the use of exclusive and designated parking spaces, as indicated in the Basic Lease Information, then such spaces shall be located in the area(s) designated by Landlord from time to time. Tenant's license to use the parking spaces provided for herein shall be subject to such terms, conditions, rules and regulations as Landlord or the operator of the Parking Area may impose from

time to time, including, without limitation, the imposition of a parking charge, which will only be implemented if required by any governmental agency.

(b) Each automobile shall, at Landlord's option to be exercised

from time to time, bear a permanently affixed and visible identification sticker to be provided by Landlord. Tenant shall not and shall not permit its Agents to park any vehicles in locations other than those specifically designated by Landlord as being for Tenant's use. The license granted hereunder is for self-service parking only and does not include additional rights or services. Neither Landlord nor its Agents shall be liable for: (i) loss or damage to any vehicle or other personal property parked or located upon or within such parking spaces or any Parking Areas whether pursuant to this license or otherwise and whether caused by fire, theft, explosion, strikes, riots or any other cause whatsoever; or (ii) injury to or death of any person in, about or around such parking spaces or any Parking Areas or any vehicles parking therein or in proximity thereto whether caused by fire, theft, assault, explosion, riot or any other cause whatsoever and Tenant hereby waives any claim for or in respect to the above and against all claims or liabilities arising out of loss or damage to property or injury to or death of persons, or both, relating to any of the foregoing. Tenant shall not assign any of its rights hereunder and in the event an attempted assignment is made, it shall be void.

(c) In the event any tax, surcharge or regulatory fee is at any time imposed by any governmental authority upon or with respect to parking or vehicles parking in the parking spaces referred to herein, Tenant shall pay such tax, surcharge or regulatory fee as Additional Rent under this Lease, such payments to be made in advance and from time to time as required by Landlord (except that they shall be paid monthly with Base Rent payments if permitted by the governmental authority).

44. ENTIRE AGREEMENT

This Lease, including the Exhibits and any Addenda attached hereto, which are hereby incorporated herein by this reference, contains the entire agreement of the parties hereto, and no representations, inducements, promises or agreements, oral or otherwise, between the parties, not embodied herein or therein, shall be of any force and effect. If there is more than one Tenant, the obligations hereunder imposed shall be joint and several.

45. INTEREST

Any installment of Rent and any other sum due from Tenant under this Lease which is not received by Landlord within three (3) days from when the same is due shall bear interest from the date such payment was originally due under this Lease until paid at the greater of (a) an annual rate equal to the maximum rate of interest permitted by law, or (b) ten percent (10%) per annum. Payment of such interest shall not excuse or cure any Default by Tenant. In addition, Tenant shall pay all costs and attorneys' fees incurred by Landlord in collection of such amounts.

46. GOVERNING LAW; CONSTRUCTION

This Lease shall be construed and interpreted in accordance with the laws of state in which the Premises are located. The parties acknowledge and agree that no rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall be employed in the interpretation of this Lease, including the Exhibits and any Addenda attached hereto. All captions in this Lease are for reference only and shall not be used in the interpretation of this Lease. Whenever required by the context of this Lease, the singular shall include the plural, the masculine shall include the feminine, and vice versa. If any provision of this Lease shall be determined to be illegal or unenforceable, such determination shall not affect any other provision of this Lease and all such other provisions shall remain in full force and effect.

47. REPRESENTATIONS AND WARRANTIES OF TENANT

Tenant (and, if Tenant is a corporation, partnership, limited liability company or other legal entity) hereby makes the following representations and warranties, each of which is material and being relied upon by Landlord, is true in all respects as of the date of this Lease, and shall survive the expiration or termination of the Lease.

2. If Tenant is an entity, Tenant is duly organized, validly

existing and in good standing under the laws of the state of its organization, and is qualified to do business in the state in which the Premises are located, and the persons executing this Lease on behalf of Tenant have the full right and authority to execute this Lease on behalf of Tenant and to bind Tenant without the consent or approval of any other person or entity. Tenant has full power, capacity, authority and legal right to execute and deliver this Lease and to perform all of its obligations hereunder. This Lease is a legal, valid and binding obligation of Tenant, enforceable in accordance with its terms.

3. Tenant has not (1) made a general assignment for the benefit of creditors, (2) filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition by any creditors, (3) suffered the appointment of a receiver to take possession of all or substantially all of its assets, (4) suffered the attachment or other judicial seizure of all or substantially all of its assets, (5) admitted in writing its inability to pay its debts as they come due, or (6) made an offer of settlement, extension or composition to its creditors, generally.

48. NAME OF BUILDING

In the event Landlord chooses to change the name or address of the Building and/or the Project, Tenant agrees that such change shall not affect in any way its obligations under this Lease, and that, except for the name or address change, all terms and conditions of this Lease shall remain in full force and effect. Tenant agrees further that such name or address change shall not require a formal amendment to this Lease, but shall be effective upon Tenant's receipt of written notification from Landlord of said change. Landlord shall not change address unless required to do so by any postal or city authority.

49. SECURITY

(a) Tenant acknowledges and agrees that, while Landlord may in its sole and absolute discretion engage security personnel to patrol the Building or the Project, Landlord is not providing any security services with respect to the Premises and that Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any loss by theft or any other damage suffered or incurred by Tenant in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises, the Building or the Project.

(b) Tenant hereby agrees to the exercise by Landlord and Landlord's Agents, within their sole discretion, of such security measures as, but not limited to, the evacuation of the Premises, the Building or the Project for cause, suspected cause or for drill purposes, the denial of any access to the Premises, the Building or the Project and other similarly related actions that it deems necessary to prevent any threat of property damage or bodily injury. The exercise of such security measures by Landlord and Landlord's Agents, and the resulting interruption of service and cessation of Tenant's business, if any, shall not be deemed an eviction or disturbance of Tenant's use and possession of the Premises, or any part thereof, or render Landlord or Landlord's Agents liable to Tenant for any resulting damages or relieve Tenant from Tenant's obligations under this Lease.

50. JURY TRIAL WAIVER

Tenant and landlord hereby waives any right to trial by jury with respect to any action or proceeding (i) brought by Landlord, Tenant or any other party, relating to (A) this Lease and/or any understandings or prior dealings between the parties hereto, or (B) the Premises, the Building or the Project or any part thereof, or (ii) to which Landlord is a party.

51. RECORDATION

Neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by any one acting through, under or on behalf of Tenant, and the recording thereof in violation of this provision shall make this Lease null and void at Landlord's election.

52. RIGHT TO LEASE

Landlord reserves the absolute right to effect such other tenancies in the Project as Landlord in the exercise of its sole business judgment shall determine to best promote the interest of the Project. Tenant does not rely on the fact, nor does Landlord represent, that any specific tenant or type or number of tenants shall, during the Lease Term, occupy any space in the Project.

53. FORCE MAJEURE

Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, inability to obtain services, labor, or materials or reasonable substitutes therefor, governmental actions, civil commotions, fire or other casualty, and other causes beyond the reasonable control of the party obligated to perform, except with respect to the obligations imposed with regard to Rent and other charges to be paid by Tenant pursuant to this Lease (collectively, the "Force Majeure"), notwithstanding anything to the contrary contained in this Lease, shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance cause by a Force Majeure.

54. ACCEPTANCE

This Lease shall only become effective and binding upon full execution hereof by Landlord and delivery of a signed copy to Tenant.

55. RENEWAL OPTION (WITH FMV RENT)

(a) EXERCISE OF OPTIONS. Provided Tenant is not in default (beyond applicable notice and grace periods) pursuant to any of the terms and conditions of this Lease, Tenant shall have the option (the "Option") to renew this Lease for an additional five (5) year period (the "Option Period") for the period commencing on the date following the Expiration Date upon the terms and conditions contained in this Lease, except, as provided in this Paragraph 56. To exercise the Option, Tenant shall give Landlord notice (the Extension Notice) of the intent to exercise said Option not less than twelve (12) months or more than fifteen (15) months prior to the date on which the Option Period which is the subject of the notice will commence. The notice shall be given as provided in Paragraph 33 hereof. In the event Tenant shall exercise the Option, this Lease will terminate in its entirety at the end of the Option Period and Tenant will have no further Options to renew or extend the Term of this Lease.

(b) DETERMINATION OF BASE RENT. The Base Rent for the Option shall be determined as follows:

(i) Landlord and Tenant will have thirty (30) days after Landlord receives the Extension Notice within which to agree on the fair market rental value of the Premises as of the commencement date of the Option Period, as defined in subsection (ii) below. If they agree on the Base Rent within thirty (30) days, they will amend this Lease by stating the Base Rent.

(ii) If Landlord and Tenant are unable to agree on the Base Rent for the Option Period within thirty (30) days, the Base Rent for the Option Period will be the greater of (i) the fair market rental value of the Premises as of the commencement date of the Option Period as determined in accordance with subsection (iii) hereof, and (ii) the last Base Rent set forth in the Basic Lease

Information. As used in this Lease, the fair market rental value of the Premises" means what a landlord under no compulsion to lease the Premises, and a tenant under no compulsion to lease the Premises, would determine as Base Rent (including initial monthly rent and rental increases) for the Option Period, as of the commencement of the Option Period, taking into consideration the uses permitted under this Lease, the quality, size, design

and location of the Premises, and the rent for comparable buildings located in the vicinity of the Project.

(iii) Within thirty (30) days after the expiration of the thirty (30) day period set forth in subparagraph (ii) above, Landlord and Tenant shall each appoint one licensed real estate appraiser, and the two appraisers so appointed shall jointly attempt to determine and agree upon the then fair market rental value of the Premises. If they are unable to agree, then each appraiser so appointed shall set one value, and notify the other appraiser, of the value set by him or her, concurrently with such appraiser's receipt of the value set by the other appraiser. The two appraisers then shall, together, select a third licensed appraiser, who shall make a determination of the then fair market rental value, after reviewing the reports of the first two appraisers appointed by the parties, and after doing such independent research as he/she deems appropriate. The value determined by the third appraiser shall be the then fair market rental value of the Premises. Landlord will pay the fee of the appraiser that it appoints, Tenant will pay the fee of the appraiser that it appoints, and Landlord and Tenant will share equally the fee of the third appraiser.

56. RIGHT OF FIRST OPPORTUNITY.

Provided Tenant is not then in default under the terms of this Lease, Landlord shall notify Tenant in writing that additional office space (approximately 15,500 sf) located at the south end of Buildings J consisting of 7,100 square feet and the south end of building K consisting of 8,400 square feet (the "Additional Space") is to become available in the Building together with the terms on which Landlord desires to lease such space (the "Offer Terms"). Landlord shall reserve the right to renew current Tenants. If current Tenant(s) does not renew, Landlord shall notify Pixelworks prior to taking the space to market.

LANDLORD: SOUTHCENTER III & IV INVESTORS LLC,
a Limited Liability Company

By: Allegis Realty Investors LLC,
Its Investment Advisor and Agent

By: /s/ Thomas Enger

Senior Vice President

TENANT: PIXELWORKS, INC.
an Oregon corporation

By: /s/ Hans H. Olsen

Print Name: Hans H. Olsen

Its: Vice President

EXHIBIT A

[GRAPHIC]

This graphic is an architect's drawing of the general layout of the leased premises.

EXHIBIT B

TENANT IMPROVEMENTS

Lease between
SOUTHCENTER III & IV INVESTORS LLC, AS LANDLORD
and
_____, as Tenant

WORK LETTER

1. (a) Landlord shall provide Tenant with an allowance (the "Allowance") which shall be an amount equal to One Hundred Twenty Five Thousand Dollars ($125,000). Landlord at their sole cost and expense will also construct shower rooms with lockers in each restroom, pay for any required fire/life safety code updates, and provide a used reception counter from another Insignia/ESG, Inc. Property.

(b) The Allowance shall be applied (i) toward architectural (including architectural services relating to Tenant's furnishings, if any) and engineering and related expenses, legal expenses, moving and relocation expenses and such other expenses incurred in connection with the relocation of Tenant to the Premises from Tenant's current premises, and (ii) toward the cost of Tenant's leasehold improvements as specified in Tenant's drawings designated in Section 3 (collectively, the "Tenant Improvements") and as approved by Tenant as provided in this Work Letter, with any portion unused to be forfeited by Tenant and retained by Landlord.

2. All Tenant Improvements shall be performed and completed by Landlord's contractor in accordance with the Final Plans (as hereinafter defined) and at the sole cost and expense of Tenant, subject to the Allowance. All mechanical, structural, electrical, plumbing and fire sprinkler engineering required to furnish the Tenant Improvements requested by Tenant subsequent to Tenant's approval of the Drawings (as hereinafter defined), shall be done by Landlord's engineers at Tenant's expense subject to the Allowance.

3. Tenant shall produce its basic layout drawings ("Tenant's Plans") and submit each to Landlord by no later than _____, 200_:

Tenant's Plans shall include, without limitation, the following:

(a) Partition/door location

(b) Telephone/electric (quantity)

(c) Finish Specifications (as required by Tenant, including selection of paint colors, finish details, and non-standard construction work to be performed within the Premises by Landlord's

contractor)

(d) Telephone/electric (final location)

If Tenant's Plans indicate that Tenant shall be in violation of any floor load requirements, Landlord shall so notify Tenant within 15 business days after receipt of Tenant's Plans, specifying all such violations, and Tenant shall correct such violations and resubmit Tenant's Plans within 5 business days thereafter. If Landlord does not notify Tenant within such time period, Tenant's Plans shall thereafter be deemed to be in full compliance of all floor load requirements as required under the Lease. Landlord shall at its expense then cause its architect to produce the construction drawings and its mechanical (sprinkler, air conditioning, heating, electric and plumbing) drawings covering all mechanical elements of the Tenant Improvements (together the "Drawings"). Landlord shall submit the Drawings to Tenant for Tenant's approval no later than fifteen (15) business days after Landlord's receipt from Tenant of Tenant's Plans, together with an itemized budget (the "Budget") for the Tenant Improvements and a statement specifying any "long lead time items" included as part of the Tenant Improvements and the alternatives which will avoid such delay. Tenant shall approve or disapprove the Drawings, Budget and, if included, the statement within five (5) business

days of their receipt.

4. (a) If Tenant approves the Budget or approves a Tenant Improvement item which Landlord has specified as a cause of delay, then Tenant shall be responsible for the cost of the Tenant Improvement as shown in the Budget in excess of the Allowance and there shall be no abatement of Rent due to any such delay (provided the delay is not caused by the intentional or negligent act or omission of Landlord, its agents, employees, or contractors). If the cost of the Tenant Improvement as shown in the Budget shall exceed the Allowance, then upon completion Tenant shall deposit with Landlord such excess together with Tenant's approval of the Budget.

(b) If Tenant fails to either approve or disapprove the Drawings, Budget or, if included, the statement, within 5 business days of receipt thereof, such item shall be deemed approved. If the Drawings, Budget or statement are disapproved, Tenant shall have 5 business days to submit revised Tenant's Plans to Landlord and Landlord shall then have 15 business days to submit revised Drawings and a revised Budget and, if necessary, a revised statement.
Landlord shall not unreasonably refuse to satisfy any objections of Tenant to the Drawings, Budget and statement and Tenant shall not unreasonably withhold its approval. The review and revision of the Drawings, Budget and statement shall continue until approved by Tenant. The approved Drawings, Budget and statement (if any) shall be attached to the Lease as Schedule B- I (the "Final Plans").

5. Upon no less than three (3) weeks' prior written notice to Landlord, and provided such early entry will not interfere with Landlord's completion of the Tenant Improvements, Landlord shall permit Tenant and Tenant's agents and contractors to enter said Premises prior to the Commencement Date in order that Tenant may do such other work as may be required by Tenant to make said Premises ready for Tenant's use and occupancy thereof ("Fit-Up Work"). Any such

entry into and occupation of the Premises by Tenant shall be deemed to be under all of the terms, covenants, conditions and provisions of the Lease except as to the covenant to pay Rent, and Landlord shall not be liable in any way for any injury, loss or damage to any Fit-up Work prior to the Commencement Date, unless directly caused by an act or omission of Landlord, its agents, employees or contractors. Landlord shall provided reasonable security to protect the Fit-up Work.

6. If the substantial completion of the Tenant Improvements shall be delayed due to any act or omission of Tenant or Tenant's Agents (including, but not limited to, (i) any delays due to change orders, or (ii) any delays by Tenant in the submission of plans, drawings, specifications or other information or in approving any working drawings or estimates or in giving any authorizations or approvals, or (iii) Tenant's interference with the progress of the Tenant improvements during any time that Tenant is given access to the Premises), then the Premises shall be deemed substantially completed in accordance with the Final Plans on the date when they would have been ready but for such delay.

7. If, prior to the Commencement Date, Tenant shall require improvements or changes (individually or collectively, "Change Orders") to the Premises in addition to, revision of, or substitution for the Tenant Improvements, Tenant shall deliver to landlord for Landlord's approval plans and specifications for such Change Orders. If Landlord does not approve of the plans for Change Orders, Landlord shall advise Tenant of the revisions required. In addition to any other items reasonably required by Landlord, I:,andlord's revisions may be based upon whether the plans and specifications: (i) affect or ate not consistent with the base structural components or systems of the Building, (ii) are visible from outside the Premises, (iii) affect safety, (iv) have or could have the effect of increasing Operating Expenses, or (v) in Landlord's judgment, are not consistent with quality and character of the Project. Tenant shall revise and redeliver the plans and specifications to Landlord within five (5) business days of Landlord's advice or Tenant shall be deemed to have abandoned its request for such Change Orders. Tenant shall pay for all preparations and revisions of plans and specifications, and the net costs of the construction of all Change Orders, subject to the Allowance.

8. The Premises shall be conclusively presumed to be in satisfactory condition on the Commencement Date except for any minor or insubstantial details of construction, mechanical adjustment or decoration which remain to be performed, the non-performance of which do not materially interfere with Tenant's use of the Premises and of which Tenant gives Landlord notice within thirty (30) days after the Commencement Date specifying such details with reasonable particularity which details Landlord shall repair within sixty (60) days of receipt of such notice.

EXHIBIT C

COMMENCEMENT AND EXPIRATION DATE MEMORANDUM

LANDLORD: SOUTHCENTER III & IV INVESTORS LLC

TENANT:_____

LEASE DATE:_____, 200__

PREMISES: Located at _____

Tenant hereby accepts the Premises as being in the condition required under the Lease, with all Tenant Improvements completed (except for minor, punchlist items which Landlord agrees to complete).

The Commencement Date of the Lease is hereby established as _____, 200__ and the Expiration Date is _____, 200__.

TENANT:_____
a _____

By:_____

Print Name:_____
Its:_____

Approved and Agreed:

Landlord:

SOUTHCENTER III & IV INVESTORS LLC,
a Delaware Limited Liability Company

By: Allegis Realty Investors LLC,
Its Investment Advisor and Agent

By: _____

_____
Senior Vice President

EXHIBIT D

RULES AND REGULATIONS

This exhibit, entitled "Rules and Regulations," is and shall constitute Exhibit D to the Lease Agreement dated as of the Lease Date, by and between Landlord and Tenant for the Premises. The terms and conditions of this Exhibit D are hereby incorporated into and are made a part of the Lease. Capitalized terms used, but not otherwise defined, in this Exhibit D have the

meanings ascribed to such terms in the Lease.

1. Tenant shall not use any method of heating or air conditioning other than that supplied by Landlord without the consent of Landlord.

2. All window coverings installed by Tenant and visible from the outside of the building require the prior written approval of Landlord.

3. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance or any flammable or combustible materials on or around the Premises, except to the extent that Tenant is permitted to use the same under the terms of Paragraph 32 of the Lease.

4. Tenant shall not alter any lock or install any new locks or bolts on any door at the Premises without the prior consent of Landlord.

5. Tenant shall not make any duplicate keys without the prior consent of Landlord.

6. Tenant shall park motor vehicles in parking areas designated by Landlord except for loading and unloading. During those periods of loading and unloading, Tenant shall not unreasonably interfere with traffic flow around the Building or the Project and loading and unloading areas of other tenants. Tenant shall not park motor vehicles in designated parking areas after the conclusion of normal daily business activity.

7. Tenant shall. not disturb, solicit or canvas any tenant or other occupant of the Building or Project and shall cooperate to prevent same.

8. No person shall go on the roof without Landlord's permission.

9. Business machines and mechanical equipment belonging to Tenant which cause noise or vibration that may be transmitted to the structure of the Building, to such a degree as to be objectionable to Landlord or other tenants, shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or in noise-dampening housing or other devices sufficient to eliminate noise or vibration.

10. All goods, including material used to store goods, delivered to the Premises of Tenant

shall be immediately moved into the Premises and shall not be left in parking or receiving areas overnight.

11. Tractor trailers which must be unhooked or parked with dolly wheels beyond the concrete loading areas must use steel plates or wood blocks under the dolly wheels to prevent damage to the asphalt paving surfaces. No parking or storing of such trailers will be permitted in the auto parking areas of the Project or on streets adjacent thereto.

12. Forklifts which operate on asphalt paving areas shall not have solid rubber tires and shall only use tires that do not damage the asphalt.

13. Tenant is responsible for the storage and removal of all trash and refuse in excess of regular janitorial services provided by Landlord. All such trash and refuse shall be contained in suitable receptacles stored behind screened enclosures at locations approved by Landlord.

14. Tenant shall not store or permit the storage or placement of goods or merchandise in or around the common areas surrounding the Premises. No displays or sales of merchandise shall be allowed in the parking lots or other common areas.

15. Tenant shall not permit any animals, including but not limited to, any household pets, to be brought or kept in or about the Premises, the Building, the Project or shy of the common areas, except for "seeing eye" dogs.

INITIALS: _____

TENANT: _____

LANDLORD:_____

EXHIBIT E

FORM OF ESTOPPEL CERTIFICATE

_____ (herein "Tenant") hereby certifies to _____ and its successors and assigns that Tenant leases from _____ ("Landlord") approximately square feet of space (the "Premises") in _____ pursuant to that certain Lease Agreement dated _____ by and between Landlord and Tenant, as amended by _____ (collectively, the "Lease"), a true and correct copy of which is attached hereto as Exhibit A. Tenant hereby certifies to_____, that as of the date hereof:

1. The Lease is in full force and effect and has not been modified, supplemented or amended, except as set forth in the introductory paragraph hereof.

2. Tenant is in actual occupancy of the Promises under the Lease and Tenant has accepted the same. Landlord has performed all obligations under the Lease to be performed by Landlord, including, without limitation, completion of: all tenant work required under the Lease and the making of any required payments or contributions therefor. Tenant is not entitled to any further payment or credit for tenant work.

3. The initial term of the lease commenced _____ and shall expire _____. Tenant has the following rights to renew or extend the term of the Lease or to expand the Premises:

4. Tenant has not paid any rentals or other payments more than one (1) month in advance except as follows:_____.

5. Base Rent payable under the Lease is _____. Base Rent and additional Rent have been paid through _____. There currently exists no claims, defenses, rights of set-off or abatement to or against the obligations of Tenant to pay Base Rent or Additional Rent or relating to any other term, covenant or condition under the Lease.

6. There are no concessions, bonuses, free months' rent, rebates or other matters affecting the rentals except as follows: _____.

7. No security or other deposit has been paid with respect to the Lease except as follows: _____.

8. Landlord is not currently in default under the Lease and there are no events or conditions existing which, with or without notice or the lapse of time, or both, could constitute a default of the Landlord under the Lease or entitle Tenant to offsets or defenses against the prompt payment of rent except as follows:_____. Tenant is not in default under any

of the terms and conditions of the lease nor is there now any fact or condition which, with notice or lapse of time or both, will become such a default.

9. Tenant has not assigned, transferred, mortgaged or otherwise encumbered its interest under the lease, nor subleased any of the Premises nor permitted any person or entity to use the Premises except as follows: _____.

10. Tenant has no rights of first refusal or options to purchase the property of which the Premises is a part.

11. The Lease represents the entire agreement between the parties with respect to Tenant's right to use and occupy the Premises.

Tenant acknowledges that the parties to whom this certificate is addressed will be relying upon the accuracy of this certificate in connection with their acquisition and/or financing of the Premises.

IN WITNESS WHEREOF, Tenant has caused this certificate to be executed this _____day of _____, 200__.

"TENANT"

_____

By: _____
Name:
Title:

EXHIBIT F

FORM OF SUBORDINATION, NONDISTURBANCE AND ATTORNMENT AGREEMENT

THIS AGREEMENT is dated the ____ day of _____, 200__, and is made between _____, a _____, having a place of business and mailing address of _____ ("Mortgagee"), and _____, a _____, having a place of business and mailing address of _____ ("Tenant").

RECITALS:

I.Tenant has entered into a certain lease ("Lease") dated _____, 200____, with _____ as lessor ("Landlord") covering certain premises known as _____ being part of a premises commonly known as _____ and located in _____ (the "Premises").

II Mortgagee has agreed to make a mortgage loan in the amount of _____ ($_____) Dollars (together with all amendments, modifications, supplements, renewals, extensions, spreaders and consolidations thereto, the "Mortgage") to the Landlord, secured by the Premises, and the parties desire to set forth their agreement herein.

NOW, THEREFORE, in consideration of the Premises, and of the sum of One Dollar ($1.00) by each party in hand paid to the other, the receipt of which is hereby acknowledged, the parties hereby agree as follows:

A. Said Lease is and shall be subject and subordinate to the Mortgage insofar as it affects the real property of which the Premises form a part to the full extent of the amounts secured thereby and interest thereon.

B. Tenant agrees that it will attorn to and recognize any purchaser at a foreclosure sale under the Mortgage, any transferee who acquires the Premises by deed in lieu of foreclosure, and the successors and assigns of such purchaser(s), as its landlord for the unexpired balance (and any extensions, if exercised) of the term of said Lease upon the same terms and conditions set forth in said Lease.

C. If it becomes necessary to foreclose the Mortgage, Mortgagee will not terminate said Lease nor join Tenant in summary or! foreclosure proceedings (unless such joinder shall be required to protect Mortgagee's interest under the Mortgage and in which case Mortgagee shall not seek affirmative relief from Tenant in such action or proceeding) so long as Tenant is not in default under any of the terms, covenants, or condition of said Lease.

D. If Mortgagee succeeds to the interest of Landlord under the Lease,

Mortgagee shall not be:

1. liable for any act or omission of any prior landlord (including Landlord); or

2. liable for the return of any security deposit; or

3. subject to any offsets or defenses which Tenant might have against any prior landlord (including Landlord); or

4. bound by any rent or additional rent which Tenant might have paid for more than the current month to any prior landlord (including Landlord); or

5. bound by any amendment, modification, extensions or renewal of the Lease made without Lender's consent; or

6. bound by any representation or warranty made by any prior landlord (including Landlord).

E. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their successors and assigns.

F. Tenant agrees to give Mortgagee, by registered or certified mail, return receipt requested, a copy of any notice of default served upon Landlord, provided that prior to such notice Tenant has been notified in writing (by way of Notice of Assignment of Rent and Leases, or otherwise) of the address of such Mortgagee. Tenant further agrees that Tenant shall not terminate the Lease nor abate rents thereunder or claim an offset against rents thereunder unless notice has been given to Mortgagee and Mortgagee has been given a reasonable period of time (including a period of time to commence and complete a foreclosure proceeding) to cure such default.

G. Tenant acknowledges that it has notice that Landlord's interest under the Lease and the rents thereunder have been collaterally assigned to Mortgagee as part of the security for the obligations secured by the Mortgage. Notice from Mortgagee to Tenant directing payment of rent and all other sums due under the Lease shall have the same effect under the Lease as a notice to Tenant from Landlord and Tenant agrees to be bound by such notice. In the event of any conflict or inconsistency between a notice from Landlord and a notice from Mortgagee, thee notice from Mortgagee shall control.

H. This Agreement shall not be modified, amended or terminated except by a writing duly executed by the party against whom the same is sought to be enforced.

I. This Agreement shall be governed by and construed in accordance with the internal laws (as opposed to the laws of conflicts) of the state in which the Premises are located.

IN WITNESS WHEREOF, the parties hereto have executed these presents as of the day and year first above written.

_____ Mortgagee:_____
Date

By: _____
Its:_____
Address:_____
_____
_____

_____Tenant:_____
Date

By: _____
Its:_____
Address:_____

EXHIBIT 10.8

CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

VAUTOMATION INCORPORATED SYNTHESIZABLE SOFT CORE AGREEMENT NUMBER: 10-24-97-01

This Agreement is entered into on 11-4-97 (Effective Date) between VAutomation Incorporated (VAutomation), 20 Trafalgar Sq., Nashua, NH 03063 and Pixelworks, Incorporated (Customer), 8100 SW Nyberg Road, Tualatin, OR 97062.

1. DEFINITIONS

(a) "Intellectual Property" means all intellectual property related to the Soft Cores, including without limitation soft cores, hard cores, licensed software, documentation or other proprietary materials and information described on the License Key for the Soft Core.

(b) "Services" means the consulting, hardware or software engineering or other services which are described in the statements of work for the attachment(s) to this Agreement.

(c) "Soft Core(s)" means those reusable pre-designed synthesizable components for the design of integrated circuits set forth in attachment A.

(d) "Customer's Products" means any integrated circuits (i) designed, manufactured, or marketed by Customer that incorporate all or any part of a Soft Core, or (ii) designed using any Intellectual Property.

(e) "License Key" means one or more documents (in physical or electronic form) provided to Customer by VAutomation which list: (i) the version number of the Soft Core licensed to Customer; (ii) the design materials and information provided for each Soft Core licensed to Customer and/or (iii) the codes which the Customer must input to the installation software to complete the installation process. A sample License Key is attached as Exhibit A.

(f) "End User" shall mean a customer of Customer who purchases or agrees to purchase from Customer integrated circuits designed by Customer using any Intellectual Property or incorporating any of the Soft Core.

(g) "Maintenance Program" shall mean the software maintenance program, consisting of upgrade and new releases of the Soft Core and telephone support conducted by VAutomation, as further described in Section 9.

2. PAYMENT TERMS

[**] CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

(a) License fees for Intellectual Property, fees for Services and such other fees as may be agreed to by the parties shall be specified in the attachment(s) to this Agreement. Customer shall pay all invoices within 30 days of date of invoice.

(b) Any overdue payment shall bear interest at the highest rate then permitted by law.

3. PURCHASE ORDER/DELIVERY TERMS

(a) In order to obtain Intellectual Property and Services from VAutomation, Customer must first submit a purchase order. As part of the purchase order, Customer must identify the Intellectual Property and Services

it wishes to obtain. All purchase orders are subject to acceptance by VAutomation, in its sole discretion. Customer's receipt and use of all Intellectual Property and documentation shall be governed by the terms and conditions of this Agreement and the attachment(s) to this Agreement. Nothing contained in any purchase order, purchaser order acknowledgment, or invoice shall in any way negate or modify such terms or add any additional terms or conditions, all of which are objected to. The above notwithstanding, variable terms such as price (but not payment terms), quantity, delivery date, and shipping instructions, as well as tax exempt status, if applicable, shall be specified on each purchase order or acknowledgment.

(b) Upon the acceptance of a purchase order by VAutomation and the satisfaction of all VAutomation prerequisites to delivery, VAutomation shall deliver to Customer the Intellectual Property and Services as specified in this Agreement and any attachment(s) to this Agreement.

4. TERM AND TERMINATION

(a) The term of this Agreement shall begin upon the Effective Date and shall continue until terminated in accordance with the terms of this Agreement.

(b) If either party breaches a material provision and does not cure the breach within 30 days after written notice from the other party, the non-breaching party shall have the right to: (i) suspend performance or payment until the breach is cured; (ii) terminate this Agreement and/or the attachment(s) to this Agreement; or (iii) seek a combination of (a) and (b) and all such other remedies as are available at law or equity and are not limited by the terms of this Agreement.

(c) Should either party: (i) become insolvent; (ii) make an assignment for the benefit of creditors; (iii) file or have filed against it a petition in bankruptcy or seeking reorganization; (iv) have a receiver appointed; or (v) institute any proceedings for liquidation or winding up; then the other party may, in addition to other rights and remedies it may have, terminate this Agreement immediately by written notice.

(d) Upon termination of this Agreement or any attachment(s) to this Agreement, the licenses, rights and covenants granted under this Agreement or the attachment(s) and the

obligations imposed by this Agreement or attachment(s) shall cease, except as otherwise expressly set forth in this Agreement or the attachment(s). Upon termination, Customer shall return to VAutomation or destroy the Intellectual Property, including all copies and documentation. Customer shall provide written notice of return or destruction to VAutomation within 30 days after termination. Such written notice shall include a list of all Intellectual Property returned or destroyed and shall be signed by an officer of Customer and notarized by a notary public.

5. INTELLECTUAL PROPERTY TRADE SECRET AND CONFIDENTALITY

(a) Intellectual Property constitutes or contains trade secrets and confidential information of VAutomation or its licensors. Except as otherwise provided in this Agreement, Customer shall not make Intellectual Property available in any form to any other person or entity. Customer shall take appropriate action to protect the confidentiality of all Intellectual Property and insure that any person permitted access to Intellectual Property does not disclose Intellectual Property or use Intellectual Property except as permitted by this Agreement. Customer shall not reverse assemble, reverse compile, or otherwise reverse engineer Intellectual Property, in whole or in part.

(b) It is a condition of this Agreement and the attachment(s) to this Agreement, that Customer protect the confidentiality of all Intellectual Property received from VAutomation under this Agreement or the attachment(s)

to this Agreement. To that end, Customer specifically promises to: (i) maintain in confidence all Intellectual Property; (ii) refrain from disclosing Intellectual Property to anyone, except Customer's employees and consultants who work with the Intellectual Property for Customer's benefit, unless VAutomation specifically authorized disclosure in writing and in advance of the disclosure; and (iii) not use Intellectual Property in any manner which is contrary to the license grants contained in this Agreement or the attachment(s) to this Agreement.

(c) Customer represents that it maintains a reasonable system, including written confidentiality agreements with its employees, consistent with industry standards, to protect its own confidential business information and Intellectual Property will be protected by such system to the same extent.

(d) The obligations of this Section 5 shall survive termination or expiration of this Agreement.

6. LICENSE GRANT

(a) VAutomation grants to Customer certain personal, nonexclusive, nontransferable licenses to use Intellectual Property. The licenses granted to Customer are: (i) a license to design and simulate Customer's Products; (ii) if authorized on the License Key, a license to copy and distribute Intellectual Property to End-Users as a part of Customer's cell library, subject to all of

the requirements of this Agreement; (iii) a license to make and sell or otherwise commercially distribute Customer's Projects world-wide to End-Users; and (iv) a license to have Customer's Products manufactured and/or tested world-wide for Customer by a foundry, provided such manufacture is pursuant to designs furnished by Customer, that such integrated circuits so manufactured are only for sale by Customer to End-Users and further provided that the foundry is subject to a written agreement with Customer which requires the foundry to protect the confidentiality of the Intellectual Property including but not limited to an obligation to only disclose Intellectual Property to those employees of the foundry with a need to know.

(b) VAutomation will deliver the License key to Customer after VAutomation's receipt from Customer of an executed copy of this Agreement, all the information required to generate the License Key and a purchase order meeting the requirements of this Agreement. VAutomation may include on the media with the Intellectual Property additional data or software, including one or more Soft Cores not currently licensed to Customer and to which the License Key will not permit access. Inclusion of such additional data or software in no way implies a license from VAutomation and Customer may not decode or use such data or software unless a License Key subsequently obtained from VAutomation specifically authorizes such access and use.

(c) If Customer or any End-User uses the Intellectual Property in any manner not specified in the License Key, VAutomation will necessarily incur damages which will be difficult to accurately estimate. In the event of such a breach, VAutomation shall be entitled to receive from Customer liquidated damages in a sum equal to the full list price for the soft Core in question. The parties agree that such amount is reasonable in light of the anticipated harm that would be caused by such a breach and that such amount is not a penalty.

(d) VAutomation and its licensors retain all title to and ownership of the Intellectual Property and all copies of Intellectual Property made by Customer regardless of the form or media in or on which the original and copies may exist. VAutomation and its licensors retain all title to and ownership of modifications and updates of Intellectual Property made by VAutomation and its licensors and provided to Customer. VAutomation shall also retain all title to and ownership of modifications to Intellectual Property made by Customer and revealed to VAutomation by the Customer. Customer retains all ownership rights in any modifications to Intellectual

Property made by the Customer and not revealed to VAutomation.

(e) The licenses granted to Customer under this Agreement and are not a sale of the Intellectual Property or any copy of the Intellectual Property or of any ownership interest in the Intellectual Property.

7. CONDITIONS TO OBLIGATIONS OF VAUTOMATION

(a) Customer agrees that VAutomation has no control over the specific applications and use Customer will make of Intellectual Property which VAutomation licenses to Customer. Customer understands that third parties may hold patents in technology which relate to the Intellectual Property and/or Customer's Products. Customer acknowledges and agrees therefore, that it is Customer's obligation to obtain all necessary licenses from third party patent holders, and that Customer's fulfillment of that obligation is an express condition to VAutomation granting Customer the licenses set forth in this Agreement. Customer warrants and represents that it will obtain all such third party patent holder licenses.

(b) If Customer fails to obtain all necessary licenses from third party patent holders, this Agreement may be terminated by VAutomation with prior written notice and expiration of a 30 day cure period. In the event of such termination, those provisions of this Agreement which by their terms survive termination shall continue in force and effect. Customer shall indemnify and hold VAutomation, its connection with any claim against VAutomation relating to any allegation that Customer's Products infringe the patent or other intellectual property rights, or that the Intellectual Property infringes the patent rights, of any third party. This obligation to indemnify and hold harmless shall survive any termination or expiration of this Agreement.

(c) If a patent infringement claim is made against Customer's Products, VAutomation shall, whenever possible, provide Customer with all reasonable information and assistance to settle or defend the claim. This assistance shall not imply any liability of VAutomation. Any costs and expenses incurred by VAutomation in providing such assistance shall be borne by or reimbursed by Customer.

8. MODIFICATIONS AND COPYING

(a) Customer may modify or translate Intellectual Property for its internal use.

(b) Customer may copy Intellectual Property only to the extent necessary for archival and backup purposes, for internal use and for furnishing to semiconductor manufacturers (including Customer) in accordance with this Agreement. Customer's right to copy and use Intellectual Property, in any form or media except semiconductor devices, is at all times and in each instance conditioned upon Customer reproducing on each copy all copyright notices and proprietary legends of VAutomation and its licensors.

9. MAINTENANCE PROGRAM

(a) VAutomation shall provide support and maintenance for a period of one year from the date of shipment. This initial year of support and maintenance is included in the project license fee.

(b) Upon expiration of the initial year of support and maintenance, and annually thereafter, the Maintenance program shall automatically renew for additional one year terms unless Customer terminates the Maintenance Program by written notice to VAutomation given no less than 60 days prior to the expiration of the then current year. VAutomation shall invoice Customer on an annual basis for the applicable support and maintenance fees.

(c) VAutomation may change, correct and add to the Soft Cores from time to time at its discretion. Changes, corrections and additions shall be sent to Customer pursuant to the schedule and method selected by VAutomation provided Customer has a paid-up Maintenance Program in place at the time the changes, corrections or additions are released.

(d) A VAutomation representative shall be available by telephone during VAutomation's normal business hours at VAutomation's designated support center to assist Customer in using Intellectual Property. Customer may contact the designated support center to discuss End-Users use of the Intellectual Property. If a problem cannot be resolved over the telephone, Customer shall provide VAutomation with written documentation of the problem. VAutomation shall evaluate the problem and use commercially reasonable efforts to provide a temporary work-around solution within ten business days of receipt of complete documentation. VAutomation shall endeavor to correct the problem within 30 business days.

(e) The Maintenance Program excludes, without limitation, repair or service resulting from (i) neglect, misuse or damage to the media containing the Intellectual Property; (ii) alterations or modifications to the Intellectual Property not authorized by and revealed to VAutomation; (iii) the failure of Customer to provide and to maintain a suitable installation environment and facilities; (iv) the use of the Intellectual Property for purposes other than as expressly permitted by this Agreement; or (v) distribution of the Intellectual Property excelt in compliance with this Agreement. VAutomation shall maintain and provide service for only the current release and one prior release of the Soft Core except that VAutomation shall maintain and service Customer's Intellectual Property for not less than one year from the date of delivery regardless of release.

10. CONSIDERATION

(a) In consideration for the rights and licenses granted Customer under this Agreement and in consideration for the first year of service under the Maintenance Program, Customer shall pay a project license fee in the amount set forth in the attachment. Payment of such fee entitles Customer to use the Soft Core to create one new production design.

(b) A Re-Use Fee as set forth in attachment A shall be paid to VAutomation by Customer for each new design using a Soft Core. A new design is created when a circuit is produced to mask for the first time. A design derivative which results in a change to both the circuit and the mask is also a new design. A process shrink of an existing design to produce a new

mask without a change in the circuit or a design spin to rework errors, where 1,000 or fewer units of the erred version were produced, is not a new design.

(c) Customer shall provide VAutomation with an annual report of all Re-Use Fees in the form set forth in Exhibit B to this Agreement. VAutomation shall invoice Customer for Re-Use Fees based upon the report provided by Customer. Customer shall pay all invoices within 30 days of date of invoice.

(d) A Maintenance fee as set forth in attachment A shall be paid to VAutomation by Customer annually upon completion of the initial year of Maintenance as provided in (a) unless terminated as described in section 9(b). Payment of such fee entitles Customer to the Maintenance Program as described in section 9.

11. AUDIT RIGHTS

(a) Customer shall keep full, clear and accurate records with respect to the number and identity of each different design by Customer for which a Re-Use Fee is due. Such records shall be sufficient to enable VAutomation to determine the amount of Re-Use Fees to be paid to VAutomation pursuant to this Agreement. In addition to the above information, Customer shall also maintain evidence of all necessary licenses from third party patent holders.

(b) VAutomation shall have the right, acting itself or at its option or at the request of the Customer, through an independent auditor, to examine and audit at all reasonable times all such records and such other records and accounts as may, under recognized accounting practices, contain information bearing upon Customer's compliance with the terms of this Agreement and upon the amount of Re-Use Fees owed to VAutomation. If any such audit shall disclose that such Re-Use Fees have been underpaid by more than 5%, Customer shall bear the cost of that audit. If any such audit shall disclose that Customer has failed to obtain necessary licenses from third party patent holders, VAutomation shall have the right to immediately terminate this Agreement, any or all attachment(s) to this Agreement and all licenses granted under either this Agreement or the attachment(s) as provided in Section 6 of this Agreement.

(c) VAutomation or the independent auditor shall keep in confidence all information gained as a result of any audit. VAutomation or the independent auditor shall only use or disclose such information as shall be necessary to enforce VAutomation's rights in accordance with this Soft Core Attachment.

12. INFRINGEMENT INDEMNIFICATION.

(a) VAutomation represents and warrants that Intellectual Property does not infringe any United States, European Community or Japanese copyrights or misappropriate any trade secret of any third party. VAutomation further represents and warrants that Intellectual Property

is the original work of VAutomation and its licensors and was developed without access to or knowledge of any third party confidential materials.

(b) If notified promptly of any such claim or action brought against Customer for copyright infringement or trade secret misappropriation, VAutomation will defend or cause to be defended such action at its expense and will pay any costs or damages awarded against Customer in such action, provided that VAutomation has control of the defense and all negotiations for settlement and Customer provides VAutomation with prompt notice of the claim all reasonable information and assistance to settle or defend the claim.

(c) If a final injunction is obtained against the Customer's use of any Intellectual Property by reason of copyright infringement or trade secret misappropriate, VAutomation will, at its option and its expense, either (i) procure for Customer the right to continue using such Intellectual Property or the infringing portions of Intellectual Property, or (ii) replace or modify Intellectual Property or the infringing portions of Intellectual Property, so that they become non-infringing, or (iii) if in VAutomation's opinion neither of the above is commercial feasible, VAutomation will accept return of the infringing Intellectual Property and refund an amount equal to the sum paid by the Customer for the infringing Intellectual Property.

(d) VAutomation will have no liability for any claim of copyright infringement arising from (i) the combination of Intellectual Property with Customer or third party materials, unless it is determined by a court of competent jurisdiction that the Intellectual Property is the infringing element of such claim; or (ii) the modification or translation of Intellectual Property or any portion of the Intellectual Property.

(e) To the knowledge of VAutomation, there is no action, suit, claim, proceeding or investigation pending or threatened against or affecting VAutomation, any of its subsidiaries, officers or directors at law or in equity, or by any Federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign regarding the Intellectual Property other than those disclosed to the Customer in Attachment B. VAutomation has disclosed to the Customer, in Attachment B, any and all claims on the Intellectual Property or for the use of the Intellectual Property known to VAutomation as of the Effective Date.

(f) VAUTOMATION MAKES NO WARRANTY, EXPRESS, IMPLIED OR STATUTORY THAT THE INTELLECTUAL PROPERTY IS FREE FROM ANY CLAIM OF INFRINGEMENT OF ANY THIRD PARTY'S PATENT RIGHTS.

13. WARRANTY AND DISCLAIMER

Except as specifically set forth in the attachment(s) to this Agreement, the Intellectual Property and Services are provided "as is" without warranty of any kind, either express, implied or

statutory, including without limitation, any warranty with respect to title, merchantability or fitness for any particular purpose. VAutomation does not warrant that the Intellectual Property will meet Customer's requirements or that the Intellectual Property will be error-free. Except as specifically provided in this Agreement, VAutomation is not obligated to support any Intellectual Property that it provides under this Agreement.

14. DAMAGE LIMITATION

Except for claims under section 12 above, VAutomation shall not be liable for any claims against Customer by any other party. Except for a willful or grossly negligent breach by Customer of any of its duties under this Agreement or any breach by Customer of section 5 (confidentiality) or section 6 (license grant), neither party shall be liable for special, incidental or consequential damages of any kind resulting from breach of this Agreement. Except with respect to claims under section 12 above, VAutomation's aggregate liability for all cases or controversies arising out of the subject matter of this Agreement shall not exceed the amount paid to VAutomation by Customer hereunder.

15. LIFE ENDANGERING APPLICATIONS

Intellectual Property is not designed, made, or intended for use in any application where failure or inaccuracy might cause death or personal injury. Customer represents, warrants and covenants that the Intellectual Property shall not be used in any pplication where failure or inaccuracy might cause death or personal injury. If Customer uses Intellectual Property for such applications, Customer will indemnify and hold harmless VAutomation, its suppliers and its licensors from any claims, loss, cost, damage, expense, or liability, including attorneys' fees, arising out of or in connection with the use and performance of Intellectual Property in such applications.

16. GENERAL

(a) Severability. If any provision of this Agreement is held to be ineffective, unenforceable or illegal for any reason, such decision shall not affect the validity or enforceability of any or all of the remaining portions thereof.

(b) Nonassignment. This Agreement may not be transferred or assigned by the Customer, by operation of law or otherwise without the prior written consent of an authorized representative of VAutomation.

(c) Taxes. Unless otherwise specifically provided in the attachment(s) to this Agreement, the amount of any present or future sales, revenue, excise or other tax or duty applicable to Intellectual Property and

Services covered by this Agreement, or the possession or use of Intellectual Property (including but not limited to any withholding taxes imposed on royalties by any country), shall be added to the prices and fees otherwise due and shall be paid by

Customer. In lieu of such payment, Customer shall provide VAutomation with a tax exemption certificate acceptable to the appropriate taxing authorities. If VAutomation is required to pay any such tax at any time, Customer shall reimburse VAutomation within 30 days after receipt of invoice.

(d) Governing Law. This Agreement shall be governed by the laws of the State of New Hampshire, exclusive of any New Hampshire law or principle which would apply the law of any other state or country.

(e) Waiver. No failure or delay on the part of either party in the exercise of any power, right or privilege under this Agreement shall operate as a waiver of such power, right or privilege, nor shall any single or partial exercise of any such power, right or privilege preclude any other or further exercise of that or of any other right, power or privilege.

(f) Notice. Any notice required or permitted to be given will be in writing and may be personally served, or sent by facsimile or mail and will be deemed to have been given: if personally given when served, if by facsimile machine to the proper facsimile number and confirmed by mail, or when mailed, by certified mail - return receipt requested on the fifth business day after deposit in the United States mail with postage prepaid and properly addressed as follows or at such other address that either party provides by advance written notice to the other party.

If to Customer:	If to VAutomation:
Attn: Allen Alley	VAutomation Inc.
8100 SW Nyberg Rd., Suite 100	20 Trafalgar Sq., Suite 443
Tualatin, OR 97062	Nashua, NH 03063
Ph: 503-612-6700	
Fax: 503-612-6713	With a copy to:
E-mail: allena@pixelworksinc.com	
	William Contente, Esq.
With a copy to:	Lucash, Gesmer & Updegrove, LLP
	40 Broad Street
Bill Campbell	Boston, MA 02109
Ater Wynne LLP	Ph: 617-350-6800
222 SW Columbia, Suite 1800	Fax: 617-350-6878
Portland, OR 97201-6618	Ph: 603-882-2282
Ph: 503-226-1191	Fax: 603-882-1587
Fax: 503-226-0079	

(g) Export Controls. Customer understands that VAutomation is subject to regulation by United States government agencies, which prohibit export or diversion of Intellectual Property,

information about Intellectual Property, and direct products of Intellectual Property to certain countries and certain persons. Regardless of any disclosure Customer makes to VAutomation of an ultimate destination of

Intellectual Property or direct products of Intellectual Property, Customer warrants that it will not export in any manner, either directly or indirectly, any Intellectual Property or direct product of Intellectual Property, without first obtaining all necessary approval from appropriate United States government agencies. Customer acknowledges that the regulation of product export is in continuous modification by the United States Congress and administrative agencies. Customer agrees to complete all documents and to meet all requirements arising out of such modifications.

(h) Other Licenses. Nothing contained in this Agreement shall be construed as conferring by implication, estoppel or otherwise upon either party any license or other right except the licenses and rights expressly granted under this Agreement. Without limiting the generality of the foregoing, Customer shall have no right to sublicense or to distribute Intellectual Property to any third party, except those rights specifically granted in this Agreement and then provided such distribution and sublicensing is carried out in accordance with all the requirements contained in this Agreement.

(i) Entire Agreement. This Agreement and its attachments contain the entire agreement and understanding of the parties with respect to this subject matter and supersedes all prior agreements, understandings and representations. No addition or modification to this Agreement is valid unless made in writing and signed by authorized representatives of the parties.

(j) Construction of Agreement. Customer acknowledges that it was given the opportunity to have this Agreement and the attachments to this Agreement reviewed by legal counsel. Customer and VAutomation agree that the rule of contract construction that interprets ambiguities against the drafter is inapplicable to this Agreement and the attachments to this Agreement.

(k) Status as Independent Contractors. The parties are independent contractors. Neither has the authority to bind the other to any third person or act in any way as the representative of the other, unless otherwise expressly agreed to in writing by authorized representatives of both parties. This Agreement in no way prohibits VAutomation from providing Intellectual Property to or performing Services for other parties.

(l) Delay. VAutomation shall not be responsible for failure or delay where the failure or delay results from causes beyond its reasonable control.

(m) Survival. The provisions of Sections 2, 4(d), 5, 6(c), 7 and 11-16 shall survive the termination of this Agreement.

[**] CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

IN WITNESS WHEREOF, the parties hereto have sealed and executed this Agreement as follows.

LICENSOR
VAUTOMATION, INC.

By:/s/ Eric Ryherd Date: 11/5/97

Eric Ryherd, President

CUSTOMER
PIXELWORKS, INC.

By:/s/ Allen H. Alley Date: 11/5/97

Allen H. Alley, President

Allen H. Alley, President

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EXHIBIT A

VAUTOMATION INCORPORATED SOFT-CORE LICENSE KEY

This is to certify that CUSTOMER is licensed by VAutomation to use the

V8086 - REVISION 1.7

Each comprising the following files:
VHDL/Verilog Synthesizable Source Code, VHDL/Verilog behavioral Test Bench,
Compilation scripts/Makefile, Synthesis scripts, Release notes, Documentation

For extraction onto CUSTOMER computers per the terms of the
VAutomation Synthesizable Soft Core Agreement

V8086 Software Decoding Key: [**]

Purchase Order Number: 10160

License Agreement Number: 10-24-97-01

/s/ Eric Ryherd

Eric Ryherd, President, VAutomation Inc.

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EXHIBIT B

VAUTOMATION SOFT CORE RE-USE FEE ANNUAL REPORT

In accordance with Section 10 (CONSIDERATION) OF THE VAutomation Incorporated Synthesizable Soft Core Agreement number 10-24-97-01, this report is submitted by _____ on _____ and covers the period from _____ to _____.

IC NAME AND/OR PART NUMBER	SOFT CORE USED	DATE OF FIRST SILICON	REUSE FEE DUE
	V8086		None, initial project

This report is hereby certified to be accurate by:

Signature:_____ Date:_____
Name, title

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ATTACHMENT A

Fee Schedule:

CORE NAME	PROJECT FEE	RE-USE FEE	ANNUAL MAINTENANCE
VZ80			
V6502			
V8086	[**]	[**]	
V186			
V960			
V526			
V8-uRISC			
VUSB			
V1394			

Payment Terms for Initial Use:
$5,000 At Receipt of Order (ARO), balance Net 90 days from shipment.

Payment Terms for Re-use:
50% At Receipt of Order (ARO), balance Net 30 days from shipment.

Delivery via:
Overnight Carrier, FOB Nashua, NH, USA

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ATTACHMENT B

Claims on the Intellectual Property or for the use of the Intellectual Property known to VAutomation as of the Effective Date.

None.

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WITH RESPECT TO THE OMITTED PORTIONS.

CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

EXHIBIT 10.9

INTEL 8086/80186 INTELLECTUAL PROPERTY SUBLICENSE AGREEMENT

This Agreement is entered into on March 30, 1999 ("Effective Date") by and between VAutomation Incorporated, having a place of business at 402 Amherst Street Nashua NH and Pixelworks, Inc. having a place of business at Tualatin, Oregon ("Sublicensee").

The parties agree as follows:

1.0 DEFINITIONS

1.1 "Licensed Product" shall mean a semiconductor device that (1) includes an 8086 Core, and 8088 Core, an 80C186 Core or an 80C188 Core, (2) is covered by at least one valid claim of a Licensed Intel Patent, (3) contains integrated circuits other than the an 8086 Core, a 8088 Core, 80C186 Core or the 80C188 Core that provide additional functionalities other than those performed by the core, (4) is not substantially pin compatible with Intel's 80186/80188 family of microprocessors, and (5) is not an Imitation of any Intel microprocessors including the 80286, 80386, 80486, Pentium, Pentium Pro, and 80960.

1.2 "Licensed Intel Patents" shall mean all Intel patents that would be infringed by the manufacture, use or sale of an 8086 Core, 8088 Core, 80C186 Core or 80C188 Core without an appropriate license from Intel.

1.3 "Imitation" shall mean a product in hardware or software or a combination thereof, which can compatibly execute substantially all of the instruction set of a specific family of Intel microprocessors to achieve substantially the same result as such family of Intel microprocessors, or is substantially pin compatible with such family of Intel microprocessors.

1.4 "80C186" shall mean a microprocessor that has all the features, properties and characteristics of one of Intel's 80C186 family of microprocessors as described in Intel's databook entitled "Embedded Microprocessors," 1995 edition.

1.5 "80C186 Core" shall mean an integrated circuit as described in Attachment A that (1) is an 80C186, but excluding its pad ring, packaging and associated input/output circuits, and (2) can be manufactured from VAutomation's V186 HDL model of the 80C186 Core and 80C188 Core.

1.6 "80188" shall mean a microprocessor that has all the features, properties and characteristics of one of Intel's 80C188 family of microprocessors as described in Intel's databook entitled "Embedded Microprocessors," 1995 edition.

1.7 "80C188 Core" is based on the 80C186 Core with an eight (8) bit external bus versus a sixteen (16) bit bus and shall mean an integrated circuit that (1) is an 80C188, but excluding the pad ring, packaging and associated input/output circuits, and (2) can be manufactured from VAutomation's V186 HDL model of the core.

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1.8 "8086" shall mean a microprocessors that has all the features, properties and characteristics of one of Intel's 8086 family of microprocessors as described in Intel's databook.

1.9 "8086 Core" shall mean an integrated circuit as described in Attachment A that (1) is an 8086, but excluding its pad ring, packaging and associated input/output circuits, and (2) can be manufactured from VAutomation's V8086 HDL model of the 8086 Core.

1.10 "8088" shall mean a microprocessor that has all the features, properties and characteristics of one of Intel's 8088 family of microprocessors as described in Intel's databook.

1.11 "8088 Core" shall mean an integrated circuit as described in Attachment A that (1) is an 8086, but excluding its ring, packaging and associated input/output circuits, and (2) can be manufactured from VAutomation's V8086 HDL mode of the 8086 Core.

1.12 "Intel" shall mean Intel Corporation, having a place of business at 5000 West Chandler Blvd. Chandler AZ

2.0 LICENSES

2.1 VAutomation grants Sublicensee a non-exclusive, worldwide, royalty bearing license, without the right to further sublicense, to use, make, have made, sell, offer to sell and import Licensed Products for the term o f this Agreement.

2.2 The license grant of Section 2.1 covers only the products of the Sublicensee, and is not intended to cover Sublicensee's foundry activities for third parties. For purposes of determining whether a product which Sublicensee develops with or acquires from a third party is, in fact, a Licensed Product, the parties agree that notwithstanding anything herein to the contrary, Licensed Products shall only include products which are:

(a) Sold only under Sublicensee's name; or

(b) designed and developed by or in association with third parties or acquired by Sublicensee; provided that at least ninety percent (90%) of the total number of units of such product which are manufactured by Sublicensee are sold by Sublicensee under its own name and to customers other that the party(ies) with which it developed or from which it acquired such product (directly or indirectly) or on such party s(ies) behalf.

2.3 Sublicensee understands that Intel may, without consultation with or consent from VAutomation, terminate this Agreement if and when Sublicensee files a patent infringement suit against Intel where the patent relates to technology contained within the 8086, 8088, 80C186, or 80C188.

3. COMPENSATION

3.1 Upon execution of this agreement, Sublicensee shall pay VAutomation a fee of 25,000.

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3.2 In addition to the fee described in Section 3.1, Sublicensee shall pay VAutomation a running royalty for each unit of Licensed Product sold by Sublicensee:

Unit Volume	Per Unit Royalty
1 - 500,000	[**]
500,000 +	[**]

For royalty calculation purposes, if a unit of Licensed Product incorporates more than one 8086 Core, 8088 Core, 80C186 Core and/or 80C188 Core, Sublicensee shall pay VAutomation a royalty for each core incorporated in the Licensed Product.

3.3 Within thirty (30) days following the end of each calendar quarter, Sublicensee shall wire transfer, in United States Dollars, the full amount of royalties due for units of Licensed Product sold by Sublicensee with respect to such quarter to an account specified by VAutomation. Simultaneously with paying such royalties, Sublicensee shall submit a report, whether or not any royalties are due, in a form reasonably acceptable to VAutomation, which shall be certified by an authorized representative of Sublicensee and which

shall state, by individual Licensed Product, the number of each Licensed Product sold by Sublicensee, the number of Licensed Cores included in each such Licensed Product and the royalties due to VAutomation thereon. An example of this report is given in Attachment B.

3.4 All payments shall be made free and clear without deduction for any and all present and future taxes imposed by any taxing authority. In the event that Sublicensee is prohibited from making such payments unless such deductions are made or withheld therefrom, then Sublicensee shall pay such additional amounts as are necessary in order that the net amounts received by VAutomation, after such deduction or withholding, equal the amount which would have been received if such deduction or withholding had not occurred. Sublicensee shall promptly furnish VAutomation with a copy of an official tax receipt or other appropriate evidence of any taxes imposed on payments made under this Agreement, including taxes made on any additional amounts paid. In cases involving taxes or duties imposed by any taxing authority on or with respect to this Agreement other than (1) taxes referred to above, and (2) income taxes imposed on VAutomation for payments received from Sublicensee under this Agreement, including but not limited to sales and use taxes, stamp taxes, value added taxes, property taxes, the costs of such taxes or duties shall be borne by the Sublicensee. In the event that such taxes or duties are legally imposed initially on VAutomation or VAutomation is later assessed by any taxing authority, then VAutomation will be promptly reimbursed by Sublicensee for such taxes or duties plus any interest and penalties suffered by VAutomation.

3.5 Sublicensee agrees that any payments required under the terms of this Agreement which are not paid when due will accrue interest at the lesser of: (i) the prime lending rate established by Citibank, New York plus 5%, or (ii) the highest rate permitted by applicable law; such interest commencing to accrue fifteen (15) days after the due date as established by this Agreement. The right to collect interest on such late payments shall be in addition to any other rights that VAutomation may have.

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4. AUDIT RIGHTS AND OBLIGATIONS

4.1 Sublicensee agrees to make and maintain for five (5) years after the last payment under this Agreement is due, sufficient books, records and accounts regarding Sublicensee's manufacturing activities in order to calculate and confirm Sublicensee's royalty obligations under Section 3.0

4.2 Each of VAutomation and Intel shall have the right to have its independent third party accounting firm to audit Sublicensee's compliance with this Agreement upon reasonable notice. The auditor will notify Intel and/or VAutomation if the Sublicensee is in compliance with this Agreement, and if not in compliance, what the correct payment should have been. If such audit discloses any non-compliance, the parties agree to promptly remedy the situation and pay/reimburse monies as required and failure to so remedy the non-compliance will be a ground for Intel and/or VAutomation to terminate the license. Additionally, if such audit discloses any non-compliance in the form of underpayment(s) of more than five percent (5%) of the royalties required to be paid, Sublicensee shall reimburse Intel or VAutomation (as appropriate) for all costs and expenses related to such audit. In no event shall an audit under this Section 4.2 be requested more frequently than once by VAutomation, and once by Intel, every twelve (12) months.

5. WARRANTY, LIMITATIONS AND INDEMNIFICATION

5.1 VAutomation warrants that the Licensed Cores and the use and copying of the Licensed Cores as permitted hereunder will not infringe upon or violate any copyright or trade secret of any third party; and that the use of the Licensed Cores as permitted hereunder to use, make, have made, sell and import the Licensed Products shall not infringe upon or violate any of the Licensed Intel Patents.

5.2 Nothing contained in this Agreement shall be construed as:

(a) a warranty or representation by Intel as to the validity or scope of any class or type of Licensed Intel Patents; or

(b) a warranty or representation that any manufacture, sale, lease, use or other disposition of Licensed Products hereunder will be free from infringement of any Intel patents other than those under which licenses have been granted hereunder; or

(c) an agreement to prosecute actions or suits against third parties for infringement or conferring any right to bring or prosecute actions or suits against third parties for infringement; or

(d) conferring any right to use in advertising, publicity, or otherwise, any trademark, trade name or names, or any contraction, abbreviation or simulation thereof, of either party; or

(e) conferring by implication, estoppel or otherwise, upon any party licensed hereunder, any license or other right under any patent, copyright, maskwork, trade secret, trademark, or other intellectual property right except the licenses and rights expressly granted hereunder; or

(f) an obligation to furnish any technical information or know-how related to the Licensed Intel Patents.

5.3 VAutomation will defend, at its expense, and will indemnify Sublicensee against any loss, cost, expense or liability arising out of any claim by a third party against Sublicensee asserting or involving a breach of the representation and warranty made in Section 5.2 above. VAutomation's obligations under this Section shall be contingent on Sublicensee's providing to VAutomation (i) prompt written notice of such claim, (ii) sole control and authority over the defense and settlement thereof, and (iii) reasonable information and assistance to settle and/or defend any such claim or action.

5.4 If an injunction or order is obtained against Sublicensee's use of any Licensed Core or distribution of Licensed Products, or if VAutomation determines that any Licensed Core or Licensed Product is likely to become the subject of a claim of infringement or violation of a patent, copyright or trade secret of a third party, VAutomation may (but need not), in its sole discretion, (a) procure for Sublicensee the right to continue using such Licensed Core and distributing such Licensed Products, or (b) replace or modify the same so that it becomes noninfringing provided such modification or replacement does not materially and adversely affect the specifications for or the use or operation of Licensed Core and/or Licensed Products by Sublicensee, or (c) accept the return of the Licensed Cores and/or Licensed Products and refund the fees paid hereunder with respect thereto.

5.5 Notwithstanding anything above to the contrary, VAutomation shall have no liability or obligation to defend and/or indemnify if the alleged infringement or violation is based upon: (a) the combination of Licensed Cores or Licensed Products with any product or technology not furnished by VAutomation to the extent such combination causes the infringement or violation; (b) the modification of Licensed Cores and/or Licensed Products other than by VAutomation to the extent such modification causes the infringement or violation; or (c) compliance with Sublicensee's specifications, designs or instructions.

5.6 This Section 5.0 sets forth VAutomation's sole liability, and Sublicensee's sole remedy, arising out of any actual or alleged infringement or violation of third party intellectual property rights in connection with the Licensed Cores and the Licensed Products. EXCEPT AS EXPRESSLY SET FORTH HEREIN, VAUTOMATION DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE LICENSED CORES AND THE LICENSED PRODUCTS, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE, NON-INFRINGEMENT AND TITLE.

5.7 Sublicensee agrees to defend or at its option settle any suit or proceeding brought against VAutomation and/or Intel concerning Sublicensee's manufacturing or marketing of Licensed Products, except for claims for which VAutomation is obligated to provide defense and indemnity as provided in Sections 5.3 and 5.5 above. Sublicensee's obligations under this Section shall be contingent on VAutomation providing to Sublicensee (i) prompt written notice of such claim, (ii) sole control and authority over the defense and settlement

thereof, and (iii) reasonable information and assistance to settle and/or defend any such claim or action.

[**] CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

6. CONFIDENTIALITY

The Licensed Cores contain and constitute valuable, confidential and proprietary information of VAutomation. Sublicensee shall take all reasonable steps to protect the value and confidentiality of the Licensed Cores, including without limitation limiting disclosure thereof to employees who have agreed to protect their value and confidentiality and who need access thereto to exercise Sublicensee's rights under this Agreement. Sublicensee acknowledges that failure to protect the value and confidentiality of the Licensed Cores will give rise to irreparable injury to VAutomation, in adequately compensable in damages.

7. TERM AND TERMINATION

7.1 The term of this Agreement shall commence as of the date first set forth above and shall continue until November 6, 2006, unless sooner terminated as provided herein.

7.2 Either party may terminate this Agreement if the other party commits any material breach or default and fails to provide an acceptable remedy of such breach or default within ten (10) days (in the event of a failure to pay amounts due) or thirty (30) days (in all other cases) after written notice of such breach or default from the non-breaching or non-defaulting party. Without limiting the generality of the foregoing, any failure to meet the obligations of Section 3.0 shall be considered a material breach of this agreement.

7.3 Either party may terminate this Agreement by written notice to the other upon termination of that certain License Agreement No. 1096TAC004 between Intel and VAutomation dated November 6, 1996.

7.4 After expiration or termination of this Agreement, all provisions relating to payment shall survive until completion of required payments, including without limitation any payments due with respect to Licensed Products sold after the termination or expiration of this Agreement. In addition, all provisions regarding indemnification, warranty, liability and limits thereon, and confidentiality and/or protection of proprietary rights and trade secrets shall survive indefinitely.

8. GOVERNING LAW

This Agreement and matters connected with its performance shall be governed by, construed, and interpreted in accordance with the laws of the State of Delaware, without reference to its conflict of laws provisions.

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9. PUBLICITY

Sublicensee may not use the Intel's name in advertisements or any other marketing or publicity activities, nor otherwise disclose the existence or content of this Agreement without the Intel's prior written consent.

10. THIRD PARTY BENEFICIARY

Sublicensee understands and agrees that Intel Corporation shall be considered an intended third party beneficiary with the right to enforce the provisions of this Agreement.

11. NOTICES

All notices required or permitted to be given hereunder shall be in writing and shall be delivered by hand, or if dispatched by prepaid air courier

or by registered or certified airmail, postage prepaid, addressed as follows:

If to VAutomation	If to Sublicensee
VAutomation, Incorporated	Pixelworks, Inc.
402 Amherst Street	8100 SW Nyberg Road, Suite 100
Nashua, NH 03063	Tualatin, OR 97062
Attn: President	Attn: President

12. ASSIGNMENT

Neither this Agreement nor any right or obligation hereunder is assignable by Sublicensee, whether in conjunction with a change in ownership, merger, acquisition, the sale or transfer of all, substantially all, or any portion of Sublicensee's business or assets or otherwise, either voluntarily, by operation of law, or otherwise, without the prior written consent of VAutomation, such consent not to be unreasonably withheld. Any such purported assignment or transfer shall be deemed a breach of this Agreement and shall be null and void.

13. RELATIONSHIP OF THE PARTIES

Nothing in this Agreement shall be construed to make the parties partners or joint venturers or to make either party liable for the obligations, acts, omissions or activities of the other.

14. ENTIRE AGREEMENT AND WAIVER

This Agreement is intended to be the entire agreement between the parties with respect to matters contained herein, and supersedes all prior or contemporaneous agreements, discussions and negotiations with respect to those matters. No waiver of any breach or default shall constitute a waiver of any subsequent breach or default.

15. SEVERABILITY

[**] CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

If any provision of this Agreement is held illegal, void or unenforceable, to any extent, in whole or in part, as to any situation or person, the balance shall remain in effect and the provision in question shall remain in effect as to all other persons or situations, as the case may be.

AGREED:

VAutomation, Inc.	Sublicensee
/s/ Eric Ryherd	/s/ Hans H. Olsen
Signature	Signature
	Hans H. Olsen
Eric Ryherd	Printed Name
	Vice President
President	Title
3-30-1999	3-30-1999
Date	Date

[**] CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

ATTACHMENT A

80C186 CORE DEFINITION

Architectural Overview

The 80C186 shares a common base architecture with the 8086, 8088, 80186, 80286, Intel386-TM- and Intel486-TM- processors. The 80C186 Core maintains full object-code compatibility with the 8086/8088 family of 16-bit microprocessors.

The 80C186 Core incorporates two separate processing units: an Execution Unit (EU) and a Bus Interface Unit (BIU). The Execution Unit executes instructions; the Bus Interface Unit fetches instructions, reads operands and writes results. The two units can operate independently of one another and are able, under most circumstances, to overlap instruction fetches and execution. The two units interface via a six-byte prefetch queue.

Execution Unit

The Execution Unit has a 16-bit Arithmetic Logic Unit (ALU) and eight 16-bit general purpose registers. The ALU performs 8-bit or 16-bit arithmetic and logical operations. It provides for data movement between registers, memory and I/O space.

The Execution Unit executes all instructions, provides data and address to the Bus Interface Unit. All registers aud data path in the Execution unit are 16 bits wide for fast internal transfer. The Execution Unit does not connect directly to the system bus. It obtains instructions from the prefetch queue maintained by the Bus Interface Unit.

Bus Interface Unit

The Bus Interface Unit fetches instruction, reads operands and writes results. Tills unit executes all external bus cycles. The Bus Interface Unit consists of the segment registers, the Instruction Pointer, the prefetch queue and several miscellaneous registers. The Bus Interface Unit transfers data ato and from the Execution unit on the ALU data bus.

The Bus Interface Unit performs a 20-bit physical address calculation that allows the Execution Unit to access the full mega-byte of memory space.

Instruction Set

The format of the 80C186 Core instruction set consists of an 8-bit operation code (opcode) and the variable length operands. Nearly every instruction can operate on either byte or word data. Register, memory, and immediate operands can be specified interchangeably in most instructions. Immediate values just serve as source operands and not destination operands. Memory variables can be manipulated (added to, subtracted from, shifted, compared) without being moved into and out of registers.

[**] CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

Addressing Modes

The 80C186 Core access instruction operands in several ways. Operands can be contained either in registers, in the instruction itself, in memory or at I/O ports. Addresses of memory and I/O ports operands can be calculated in many ways. These addressing modes greatly extend the flexibility and convenience of the instruction set.

8086 CORE DEFINITION

The 8086 Core is a 16-bit microprocessor with the following features:

Direct Addressing Capability 1 Mbyte of Memory
MULTIBUS System Compatible interface

14 Word, by 16-Bit Register Set with Symmetrical Operations
24 Operand Addressing Modes
Bit, Byte, Word and Block Operations
8 and 16-Bit Signed and Unsigned Arithmetic in Binary or Decimal Including Multiply and Divide

8088 CORE DEFINITION

The 8088 Core is an 8-bit microprocessor with attributes of both 8-bit and 16-bit microprocessors and with the following features:

8-Bit Data Bus Interface and 16-Bit Internal Architecture
Direct Addressing Capability to 1 Mbyte of Memory
Direct Software Compatibility with 8086 CPU
14-Word by 16-Bit Register Set with Symmetrical Operations
24 Operand Addressing Modes
Byte, Word, and Block Operations
8-Bit and 16-Bit Signed and Unsigned Arithmetic in Binary or Decimal, including Multiply and Divide

[GRAPHIC]

This graphic consists of a simplified functional block diagram of the Intel 80C186 and the 8086 soft core.

[**] CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

ATTACHMENT B

QUARTERLY 8086/80186 INTEL INTELLECTUAL PROPERTY SUBLICENSE REPORT

Sublicensee:

Licensed Product IC Name	V8086/V186 instances per IC	Units Sold	Comments
Total instances sold this quarter			

Total instances sold this quarter:
Total instances sold to date:
Royalty due per instance:
Royalty due:

Certified by:

Signature:_____

Name:_____ Title:_____ Date:_____

[**] CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

LICENSE AGREEMENT
InFocus Systems, Inc.
Pixelworks, Inc.

February 22, 2000

This License is entered into effective February 22, 2000 (the "Effective Date") between InFocus Systems, Inc., 27700B SW Parkway Avenue, Wilsonville, OR 97070-9215 (InFocus), and Pixelworks, Inc., 7700 Mohawk St., Tualatin, OR, 97056 (Pixelworks.) Pixelworks includes any majority-owned subsidiary of Pixelworks, Inc.

InFocus owns U.S. patents 5,805,233 and 5,767,916 (together the "Patent"), and wishes to grant a license to the Patent to Pixelworks in exchange for certain Pixelworks stock and cash. The "Patent" also includes any extensions, continuations, continuations-in-part, divisions, reissues, and foreign equivalents of U.S. Patents 5,805,233 and 5,767,916.

Accordingly, the parties agree as follows:

1. LICENSE.

1.1 GRANT. InFocus grants to Pixelworks a worldwide, paid up (excepting only the payments expressly contemplated under this Agreement), non-exclusive, nontransferrable, perpetual, royalty free license to make, have made, use, sell, offer for sale, and import products that would otherwise infringe the Patent (the "Products"). InFocus understands that the Products execute software instructions, and that the software instructions can be and are shipped, installed, sold, licensed, updated, modified, and revised separately from, but for execution in, the Products. The licensing and sublicensing to any tier of distribution of such software for development, modification, and revision, and for commercial exploitation solely on and with the Products, is expressly licensed under this Grant. Except with respect to software as just stated and as encompassed in the concept of "have made", this license does not include the right to grant further licenses or sublicenses.

1.2 TRADE SECRETS. InFocus also grants Pixelworks a worldwide, paid up, non-exclusive, perpetual, non-transferrable, royalty free license to use trade secrets related to the problem the Patent solves and financially or functionally necessary to achieve what Pixelworks in good faith believes to be the optimal solution to that problem, and that are remembered or in records held by Pixelworks employees who were formerly employed by InFocus and who are employed by Pixelworks on the Effective Date. Trade secrets encompassed in this paragraph are called "Trade Secrets" herein.

1.3 SOFTWARE IMPLEMENTATIONS/COVENANT NOT TO SUE. InFocus covenants not to sue third parties who run non-Pixelworks software on Products, provided that this test is met: if the same software were Pixelworks software distributed by Pixelworks, it would fall within the license grant of paragraph 1.1.

2. DELIVERY. InFocus shall not be required to deliver any technology to Pixelworks. InFocus shall, however, deliver to Pixelworks copies of the patent prosecution history file for the Patent, and of all pending and all final issued patents and patent claims contained therein in any jurisdiction.

3. CONSIDERATION. InFocus shall receive, in consideration for the license thus granted, 156,863 shares of Pixelworks' Series D Preferred Stock, and four quarterly payments of $600,000 each.

3.1 TIMING AND TERMS OF CASH PAYMENTS. The first cash payment shall be due March 31, 2000, and the next three on the last day of each calendar quarter thereafter, ending December 31, 2000. Failure to make timely payment shall constitute a material breach of this Agreement in accordance with Section 5 hereof. Interest shall accrue on late payments at the lesser of 18% per year or the highest interest rate allowed under applicable law.

3.2 TERMS OF STOCK GRANT. Pixelworks shall grant the shares of Series D

Preferred Stock pursuant to the terms and conditions of Pixelworks' Series D Preferred Stock financing round. InFocus shall execute the same investment documents as are executed by all other investors in that round generally, and this Agreement shall be effective contemporaneous with the closing of that financing round.

4. INFRINGEMENT AND OTHER LICENSES.

4.1 INFRINGEMENTS. If Pixelworks learns of or suspects any infringement of the Patent by a third party, Pixelworks shall promptly inform InFocus of such infringement. If InFocus determines to take action to bar the infringement, InFocus may do so. As of the Effective Date and within the horizon of InFocus' reasonably foreseeable business planning process as applicable to such matters, it is InFocus' intention to take action to prevent future infringement of the Patent. InFocus makes no representations beyond a three year horizon from the date hereof. InFocus reserves the privilege of not pursuing infringers when in its good faith judgment the commercial impact of the suspected or actual infringement is outweighed by the cost of the pursuit.

4.2 OTHER LICENSES. As of the Effective Date and within the horizon of InFocus' reasonably foreseeable business planning process as applicable to such matters, InFocus does not plan or intend to license the Patent for commercial use (other than for purposes of building products for sale or resale by InFocus) to any third party for consideration with a total value less than the total value of the consideration provided by Pixelworks under this Agreement, which value InFocus regards as commercially reasonable. InFocus makes no representations beyond a three year horizon from the date hereof. InFocus reserves the privilege of licensing its technology on terms and for consideration that in its good faith judgment are commercially reasonable for the Patent under the circumstances then prevailing for the particular transaction.

4.3 PATENT MAINTENANCE. InFocus shall maintain each of the constituent patents in the Patent in all jurisdictions in which they or equivalents have been filed, for the statutory life of patents in those jurisdictions. The parties agree to cooperate in connection with the maintenance of the Patent and to take any and all actions necessary to transfer the necessary documents and rights required for, and to do such other things as are from time to time necessary to comply with the requirements of, this Section

4.3. Payment of all fees and costs incurred during the term of this Agreement relating to the maintenance of the Patent shall be the responsibility of InFocus.

4.4 COOPERATION. Pixelworks and InFocus shall keep each other promptly and fully apprised of all material developments in the maintenance of the Patent. Each party will cooperate as reasonably necessary to secure and maintain protection applicable to the Patent.

4.5 WARRANTY OF TITLE. InFocus warrants that it has good and marketable title, and all rights necessary to grant the licenses and rights herein granted, to the Patent and to the right to exercise the claims it contains.. InFocus' liability for breach of this warranty shall be limited to return of the consideration paid.

5. COVENANT REGARDING FUTURE DISPUTES. The parties commit to meet and to discuss any disputes arising under this Agreement, including without limitation any assertions of material breach. The discussions will take place among people who from each party collectively have the authority to settle matters under discussion, in a good faith effort to resolve such matters without formal proceedings.

6. CONFIDENTIALITY. Pixelworks acknowledges that any Trade Secrets are InFocus' valuable and confidential information. Pixelworks agrees to take all reasonable steps to protect the confidentiality of those Trade Secrets, including employing the practices and procedures it uses to protect its own trade secrets. Disclosure of the Trade Secrets will be limited to Pixelworks' agents or employees on a need-to-know basis, and only after such persons have been informed of, and are subject to obligations to maintain, the Trade Secrets' confidentiality.

7. TERMINATION. Either party may terminate this Agreement by Notice, if the other commits a material breach of this Agreement which is not cured within thirty days' following Notice. Any such termination shall end the license rights granted to Pixelworks under Section 1, provided Pixelworks shall be entitled to exhaust existing inventories of Products (including as inventories Products already in production).

8. PRESS RELEASES AND PUBLICITY.

8.1 LEGALLY REQUIRED DISCLOSURE PERMITTED. Each party shall be permitted to make such disclosure concerning this Agreement as may be required for purposes of audit, financing or by any court or government agency, provided that each party shall take such precautions to secure confidential treatment as may be reasonably available in the particular forum. Otherwise, subject to the right to issue press releases under Section 8.2, this Agreement, its terms, and all matters leading up to it and giving rise to it are confidential, and may not be disclosed by the Parties to any outside party except those under nondisclosure obligations who have a need to know.

8.2 PRESS RELEASES. If either party wishes to issue a press release concerning this Agreement, it shall first provide the other with a copy of the proposed release for approval. Neither party will issue a press release until after Pixelworks has completed its "quiet period" following registration, provided that InFocus may issue an internal release in the following language. No release shall be issued that describes this agreement without the approval of both parties. Each party approves a press release

that does no more than announces this agreement in the following terms, and which may also characterize each party using that party's own usual and customary press release language to describe itself:

> InFocus Systems, Inc. and Pixelworks, Inc. have entered into a license agreement covering certain InFocus patented technology that helps digital display devices more clearly and sharply present video or other analog-source images, (party) announced today.

9. OTHER MATTERS.

9.1 NOTICE. "Notice" means notice given as described here. Notice will be given to Timothy M. Carlson for InFocus, and to Allen Alley for Pixelworks, at the address designated at the beginning of this Agreement. Each party can change its own Notice address and designated Notice recipient, by Notice. Notice shall be effective when actually received by the designated person, in any form that leaves a hard copy record of the notice in that person's possession. If sent certified or registered mail, postage prepaid, return receipt requested, notice is considered effective on the date on which effective delivery is first proven, but in no event later than the date the return receipt shows the notice was accepted, refused, or returned undeliverable.

9.2 SEVERABILITY. Each clause of this agreement is severable. If any clause is ruled void or unenforceable, the balance of the agreement shall nonetheless remain in effect.

9.3 NON-WAIVER. A waiver of one or more breaches of any clause of this agreement shall not act to waive any other breach, whether of the same or different clauses.

9.4 ASSIGNMENT. This agreement may not be assigned by Pixelworks without the express written consent of InFocus, which consent will not be unreasonably withheld.

9.5 GOVERNING LAW, JURISDICTION. This agreement is governed by the laws of the state of Oregon. Any action brought between the parties may be brought only in the state or federal courts located in Portland, Oregon, and in no other place unless the parties expressly agree in writing to waive this requirement. Each party consents to jurisdiction in that location. Each party consents to service of process through the method prescribed for Notice in this agreement.

9.6 ATTORNEYS' FEES. The prevailing party in any suit, action, arbitration, or appeal filed or held concerning this agreement shall be entitled to reasonable attorneys' fees.

9.7 REPRESENTATION. This document is the result of negotiations between parties, each of whom was represented or had the opportunity to be represented in the transaction, and has had the opportunity to have had the transactional documents reviewed by counsel of their own choice.

9.8 INTEGRATION. This agreement is the complete agreement between the parties as of the date hereof, and supersedes all prior agreements, written or oral, excepting only the nondisclosure agreement in place between the parties, and contracts and agreements anticipated under Section 3.2 hereof. This Agreement resolves and satisfies all claims or disputes between the parties concerning the Patent, Trade Secrets, or any InFocus patents, issued or pending, as of the effective date that address the

same set of problems solved by the Patent, arising at any point prior to the effective date hereof, and any dispute that could arise between InFocus and any Pixelworks customer (direct or indirect) with respect to that Customer's own use of Pixelworks' Products to run Customer software in a combination that could infringe the Patent. Pixelworks' direct and indirect customers are intended third party beneficiaries of this integration and resolution. This Agreement may be modified only in writing signed by the original parties hereto, or by their successors or superiors in office.

INFOCUS SYSTEMS, INC.	PIXELWORKS, INC.
By: /s/ Mark Pruitt ----------	By: /s/ Allen H. Alley ----------
Print: Mark Pruitt ----------	Print: Allen H. Alley ----------
Title: Vice President, R&D ----------	Title: President & CEO ----------
Date: 2/24/2000 ----------	Date: 2/24/2000 ----------

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Pixelworks, Inc.:

We consent to the use of our Independent Auditors' Report dated January 26, 2000 relating to the balance sheets of Pixelworks, Inc. as of December 31, 1998 and 1999, and the related statements of operations, redeemable convertible preferred stock and shareholders' equity (deficit) and cash flows for the period from January 16, 1997 (date of inception) through December 31, 1997 and for each of the years in the two-year period ended December 31, 1999 which report is included in the Registration Statement and Prospectus, dated February 24, 2000, of Pixelworks, Inc., and to the reference to our firm under the heading "Experts" in the Prospectus.

/s/ KPMG LLP

Portland, Oregon
February 24, 2000

<ARTICLE> 5
<LEGEND> THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS, CONSOLIDATED STATEMENT OF OPERATIONS AND NOTES TO FINANCIAL STATEMENTS ON PAGES F-3,F-4,F-7 AND F-11 OF THE COMPANY'S FORM S-1 FOR THE YEAR ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCES TO SUCH FINANCIAL STATEMENTS.
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