

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2021

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-30269

PIXELWORKS, INC.

(Exact name of registrant as specified in its charter)

Oregon

(State or other jurisdiction of incorporation or organization)

16760 SW Upper Boones Ferry Rd., Ste. 101

Portland, Oregon

(Address of principal executive offices)

91-1761992

(I.R.S. Employer Identification No.)

97224

(Zip Code)

(503) 601-4545

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001 per share	PXLW	The Nasdaq Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Securities registered pursuant to Section 12(b) of the Act:

The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, was 52,434,217 as of August 6, 2021

SUMMARY RISK FACTORS

Our business is subject to varying degrees of risk and uncertainty. Investors should consider the risks and uncertainties summarized below, as well as the risks and uncertainties discussed in Part II, Item 1A, "Risk Factors" of this Quarterly Report on Form 10-Q. Investors should also refer to the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, including our consolidated financial statements and related notes, and our other filings made from time to time with the Securities and Exchange Commission. Our business operations could also be affected by factors that we currently consider to be immaterial or that are unknown to us at the present time. If any of these risks occur, our business, financial condition, and results of operations could be materially and adversely affected, and the trading price of our common stock could decline.

Our business is subject to the following principal risks and uncertainties:

- The ongoing effects of the COVID-19 pandemic could disrupt our business or the business of our customers or suppliers, and as such, may adversely affect our financial condition.
- The continued uncertain global economic environment and volatility in global credit and financial markets could materially and adversely affect our business and results of operations.
- If we fail to meet the evolving needs of our markets, identify new products, services or technologies, or successfully compete in our target markets, our revenue and financial results will be adversely impacted.
- Our product strategy may not address the demands of our target customers and may not lead to increased revenue in a timely manner or at all, which could materially adversely affect our results of operations and limit our ability to grow.
- Achieving design wins involves lengthy competitive selection processes that require us to incur significant expenditures prior to generating any revenue or without any guarantee of any revenue related to this business. If we fail to generate revenue after incurring substantial expenses to develop our products, our business and operating results would suffer.
- If we fail to retain or attract the specialized technical and management personnel required to successfully operate our business, it could harm our business and may result in lost sales and diversion of management resources.
- We have significantly fewer financial resources than most of our competitors, which limits our ability to implement new products or enhancements to our current products, which in turn could adversely affect our future sales and financial condition.
- If we are not profitable in the future, we may be unable to continue our operations.
- A significant amount of our revenue comes from a limited number of customers and distributors exposing us to increased credit risk and subjecting our cash flow to the risk that any of our customers or distributors could decrease or cancel its orders.
- We generally do not have long-term purchase commitments from our customers and if our customers cancel or change their purchase commitments, our revenue and operating results could suffer.
- Our revenue and operating results can fluctuate from period to period, which could cause our share price to decline.
- If we are unable to generate sufficient cash from operations and are forced to seek additional financing alternatives our working capital may be adversely affected and our shareholders may experience dilution or our operations may be impaired.
- We license our intellectual property, which exposes us to risks of infringement or misappropriation, and may cause fluctuations in our operating results.
- We face a number of risks as a result of the concentration of our operations and customers in Asia.
- Our operations in Asia expose us to heightened risks due to natural disasters.
- We face additional risks associated with our operations in China and our results of operations and financial position may be harmed by changes in China's political, economic or social conditions or changes in U.S.-China relations.
- Our international operations expose us to risks resulting from the fluctuations of foreign currencies.
- If we are unable to maintain effective disclosure controls and internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, and the market price of our common stock may be materially and adversely affected.
- Our dependence on selling to distributors and integrators increases the complexity of managing our supply chain and may result in excess inventory or inventory shortages.
- We may be unable to successfully manage any future growth, including the integration of any acquisition or equity investment, which could disrupt our business and severely harm our financial condition.
- Continued compliance with regulatory and accounting requirements will be challenging and will require significant resources.
- Regulations related to conflict minerals may adversely impact our business.
- Dependence on a limited number of sole-source, third-party manufacturers for our products exposes us to possible shortages based on low manufacturing yield, errors in manufacturing, uncontrollable lead-times for manufacturing, capacity allocation, price increases with little notice, volatile inventory levels and delays in product delivery, any of which could result in delays in satisfying customer demand, increased costs and loss of revenue.

- Our highly integrated products and high-speed mixed signal products are difficult to manufacture without defects and the existence of defects could result in increased costs, delays in the availability of our products, reduced sales of products or claims against us.
- The development of new products is extremely complex and we may be unable to develop our new products in a timely manner, which could result in a failure to obtain new design wins and/or maintain our current revenue levels.
- Intense competition in our markets may reduce sales of our products, reduce our market share, decrease our gross profit and result in large losses.
- If we are not able to respond to the rapid technological changes and evolving industry standards in the markets in which we compete, or seek to compete, our products may become less desirable or obsolete.
- We use a customer-owned tooling process for manufacturing most of our products, which exposes us to the possibility of poor yields and unacceptably high product costs.
- We depend on manufacturers of our semiconductor products not only to respond to changes in technology and industry standards but also to continue the manufacturing processes on which we rely.
- Shortages of materials used in the manufacturing of our products and other key components of our customers' products may increase our costs, impair our ability to ship our products on time and delay our ability to sell our products.
- Because of our long product development process and sales cycles, we may incur substantial costs before we earn associated revenue and ultimately may not sell as many units of our products as we originally anticipated.
- Our developed software may be incompatible with industry standards and challenging and costly to implement, which could slow product development or cause us to lose customers and design wins.
- The competitiveness and viability of our products could be harmed if necessary licenses of third-party technology are not available to us on terms that are acceptable to us or at all.
- Our limited ability to protect our IP and proprietary rights could harm our competitive position by allowing our competitors to access our proprietary technology and to introduce similar products.
- Our products are characterized by average selling prices that can decline over relatively short periods of time, which will negatively affect our financial results unless we are able to reduce our product costs or introduce new products with higher average selling prices.
- The cyclical nature of the semiconductor industry may lead to significant variances in the demand for our products and could harm our operations.
- The price of our common stock has and may continue to fluctuate substantially.

PIXELWORKS, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2021
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NOTE REGARDING COVID-19

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, and the virus continues to spread in areas where we operate and sell our products and services. Several public health organizations have recommended, and many local governments have implemented, certain measures to slow and limit the transmission of the virus, including shelter in place and social distancing ordinances, which has resulted in a significant deterioration of economic conditions in many of the countries in which we operate.

The spread of COVID-19 has caused us to modify our business practices, including implementing work-from-home policies and restricting travel by our employees. To date, our Shanghai and Shenzhen offices have returned to full in-person staffing, our offices and supply chain partners in Taiwan are fully functional, and our offices in Japan and North America are fully operational, working both in-office and remotely.

COVID-19 may also affect the operations of our suppliers and customers, as their own workforces and operations are disrupted by the pandemic, which could result in the interruption of our distribution system, temporary or long-term disruption in our supply chains, or delays in the delivery of our product. While we expect the impacts of COVID-19 to be temporary, the disruptions caused by the virus have negatively affected our revenue and results of operations in 2020 and 2021. For example, our revenues for fiscal year 2020 were lower than initially anticipated and we expect our revenues for 2021 to continue to be negatively impacted by COVID-19.

The impact of the pandemic on our business, as well as the business of our suppliers and customers, and the additional measures that may be needed in the future in response to it, including cost-saving measures, will depend on many factors beyond our control and knowledge. We will continually monitor the situation to determine what actions may be necessary or appropriate to address the impact of the pandemic, which may include actions mandated or recommended by federal, state or local authorities.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

PIXELWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	June 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,624	\$ 31,257
Short-term marketable securities	—	250
Accounts receivable, net	6,351	4,672
Inventories	1,577	2,445
Prepaid expenses and other current assets	1,888	1,010
Total current assets	33,440	39,634
Property and equipment, net	3,900	5,103
Operating lease right-of-use assets	6,013	6,606
Other assets, net	992	1,081
Acquired intangible assets, net	631	1,207
Goodwill	18,407	18,407
Total assets	\$ 63,383	\$ 72,038
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,664	\$ 995
Accrued liabilities and current portion of long-term liabilities	8,745	9,452
Current portion of income taxes payable	140	147
Total current liabilities	11,549	10,594
Long-term liabilities, net of current portion	569	1,007
Operating lease liabilities, net of current portion	4,178	5,088
Income taxes payable, net of current portion	2,673	2,479
Total liabilities	18,969	19,168
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock	—	—
Common stock	471,958	467,957
Accumulated other comprehensive income	47	47
Accumulated deficit	(427,591)	(415,134)
Total shareholders' equity	44,414	52,870
Total liabilities and shareholders' equity	\$ 63,383	\$ 72,038

See accompanying notes to condensed consolidated financial statements.

PIXELWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue, net	\$ 14,051	\$ 9,253	\$ 23,321	\$ 23,027
Cost of revenue (1)	6,940	4,204	12,485	11,203
Gross profit	7,111	5,049	10,836	11,824
Operating expenses:				
Research and development (2)	6,671	6,314	13,456	12,581
Selling, general and administrative (3)	4,896	5,156	9,750	10,349
Restructuring	—	—	—	592
Total operating expenses	11,567	11,470	23,206	23,522
Loss from operations	(4,456)	(6,421)	(12,370)	(11,698)
Interest income (expense) and other, net	181	(24)	237	30
Total other income (expense), net	181	(24)	237	30
Loss before income taxes	(4,275)	(6,445)	(12,133)	(11,668)
Provision for income taxes	107	107	324	283
Net loss	\$ (4,382)	\$ (6,552)	\$ (12,457)	\$ (11,951)
Net loss per share - basic and diluted	\$ (0.08)	\$ (0.17)	\$ (0.24)	\$ (0.31)
Weighted average shares outstanding - basic and diluted	52,283	39,444	51,980	39,156

(1) Includes:				
Amortization of acquired intangible assets	218	298	463	596
Stock-based compensation	76	127	155	228
(2) Includes stock-based compensation	610	806	1,191	1,454
(3) Includes:				
Stock-based compensation	820	1,310	1,592	2,383
Amortization of acquired intangible assets	53	76	113	152

See accompanying notes to condensed consolidated financial statements.

PIXELWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net loss	\$ (4,382)	\$ (6,552)	\$ (12,457)	\$ (11,951)
Other comprehensive loss:				
Unrealized gain on available-for-sale securities	—	7	—	1
Total comprehensive loss	<u>\$ (4,382)</u>	<u>\$ (6,545)</u>	<u>\$ (12,457)</u>	<u>\$ (11,950)</u>

See accompanying notes to condensed consolidated financial statements.

PIXELWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (12,457)	\$ (11,951)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	2,938	4,065
Depreciation and amortization	1,922	1,893
Amortization of acquired intangible assets	576	748
Deferred income tax expense (benefit)	(22)	4
Reversal of uncertain tax positions	(2)	(10)
Accretion on short-term marketable securities	—	(10)
Gain on sale of marketable securities	—	(4)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,679)	4,990
Inventories	868	634
Prepaid expenses and other current and long-term assets, net	497	1,343
Accounts payable	1,418	191
Accrued current and long-term liabilities	(2,295)	(1,804)
Income taxes payable	189	77
Net cash provided by (used in) operating activities	(8,047)	166
Cash flows from investing activities:		
Purchases of property and equipment	(393)	(612)
Proceeds from sales and maturities of short-term marketable securities	250	7,498
Purchases of short-term marketable securities	—	(1,500)
Net cash provided by (used in) investing activities	(143)	5,386
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee equity incentive plans	1,063	337
Payments on asset financings	(506)	(328)
Proceeds from line of credit	—	4,329
Net proceeds from "at the market" equity offering	—	2,474
Proceeds from Paycheck Protection Program loan	—	796
Net cash provided by financing activities	557	7,608
Net increase (decrease) in cash and cash equivalents	(7,633)	13,160
Cash and cash equivalents, beginning of period	31,257	7,257
Cash and cash equivalents, end of period	\$ 23,624	\$ 20,417
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds received	\$ 177	\$ 211
Cash paid during the period for interest	69	107
Non-cash investing and financing activities:		
Acquisitions of property and equipment and other assets under extended payment terms	—	1,392

See accompanying notes to condensed consolidated financial statements.

PIXELWORKS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

	Common Stock		Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount			
2021					
Balance as of December 31, 2020	51,078,942	\$ 467,957	\$ 47	\$ (415,134)	\$ 52,870
Stock issued under employee equity incentive plans	1,133,479	1,063	—	—	1,063
Stock-based compensation expense	—	1,432	—	—	1,432
Net loss	—	—	—	(8,075)	(8,075)
Balance as of March 31, 2021	<u>52,212,421</u>	<u>\$ 470,452</u>	<u>\$ 47</u>	<u>\$ (423,209)</u>	<u>\$ 47,290</u>
Stock issued under employee equity incentive plans	140,143	—	—	—	—
Stock-based compensation expense	—	1,506	—	—	1,506
Net loss	—	—	—	(4,382)	(4,382)
Balance as of June 30, 2021	<u>52,352,564</u>	<u>\$ 471,958</u>	<u>\$ 47</u>	<u>\$ (427,591)</u>	<u>\$ 44,414</u>
2020					
Balance as of December 31, 2019	38,434,488	\$ 436,122	\$ 12	\$ (388,605)	\$ 47,529
Stock issued under employee equity incentive plans	815,375	325	—	—	325
Stock-based compensation expense	—	1,822	—	—	1,822
Unrealized loss on available for sale securities	—	—	(6)	—	(6)
Net loss	—	—	—	(5,399)	(5,399)
Balance as of March 31, 2020	<u>39,249,863</u>	<u>\$ 438,269</u>	<u>\$ 6</u>	<u>\$ (394,004)</u>	<u>\$ 44,271</u>
"At the market" equity offering	803,528	2,474	—	—	2,474
Stock issued under employee equity incentive plans	167,100	12	—	—	12
Stock-based compensation expense	—	2,243	—	—	2,243
Unrealized gain on available for sale securities	—	—	7	—	7
Net loss	—	—	—	(6,552)	(6,552)
Balance as of June 30, 2020	<u>40,220,491</u>	<u>\$ 442,998</u>	<u>\$ 13</u>	<u>\$ (400,556)</u>	<u>\$ 42,455</u>

See accompanying notes to condensed consolidated financial statements.

PIXELWORKS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data)
(Unaudited)

NOTE 1: BASIS OF PRESENTATION

Nature of Business

Pixelworks is a leading provider of high-performance and power-efficient visual processing solutions that bridge the gap between video content formats and rapidly advancing display capabilities. We develop and market semiconductor and software solutions that enable consistently high-quality, authentic viewing experiences in a wide variety of applications from cinema to smartphones. Our primary target markets include Mobile (smartphone, gaming and tablet), Home Entertainment (TV, personal video recorder ("PVR"), over-the-air ("OTA") and projector), Content (creation, remastering and delivery), and Business & Education (projector).

As of June 30, 2021, we had an intellectual property portfolio of 335 patents related to the visual display of digital image data. We focus our research and development efforts on developing video algorithms that improve quality, and architectures that reduce system power, cost, bandwidth and increase overall system performance and device functionality. We seek to expand our technology portfolio through internal development and co-development with business partners, and we continually evaluate acquisition opportunities and other ways to leverage our technology into other high-value markets.

Pixelworks was founded in 1997 and is incorporated under the laws of the state of Oregon. On August 2, 2017, we acquired ViXS Systems, Inc., a corporation organized in Canada ("ViXS").

The Company has engaged in a strategic plan to re-align its mobile, projector, and video delivery businesses to improve their focus on the Asia-centered customers and employee stakeholders of those businesses. The global center of the mobile, projector, and video delivery businesses continues to be in Asia, and the steps taken by the Company to date and going forward are intended to improve its ability to access capital, customers, and talent. The Company has operated its primary R&D center in Asia for over 15 years and feels that the time is right to take advantage of that existing footprint and develop its subsidiary, Pixelworks Semiconductor Technology (Shanghai) Co., Ltd. (or "PWSH") as a full profit-and-loss center underneath the Company for the mobile, projector, and video delivery businesses. Most of these steps have been completed or will be completed before the end of 2021.

This plan will further enable PWSH to seek qualification to file an application for an initial public offering on the Shanghai Stock Exchange's Sci-Tech innovAtion boARd, known as the STAR Market (the "Listing"). The Company believes that the Listing will have many benefits, including improved access to new capital markets and the funding of its growth worldwide. The Company presently intends to qualify PWSH to apply for the Listing so that the Listing is consummated in the first half of 2023. The process of going public on the STAR Market includes several periods of review and, therefore, is a lengthy process. There is no guarantee that PWSH will be approved for a Listing at any point in the future.

Condensed Consolidated Financial Statements

The financial information included herein for the three and six month periods ended June 30, 2021 and 2020 is prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and is unaudited. Such information reflects all adjustments, consisting of only normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the Company's condensed consolidated financial statements for these interim periods. The financial information as of December 31, 2020 is derived from our audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2020, included in Item 8 of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 10, 2021, and should be read in conjunction with such consolidated financial statements.

The results of operations for the three and six month periods ended June 30, 2021 and 2020 are not necessarily indicative of the results expected for future periods or for the entire fiscal year ending December 31, 2021.

Recent Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2019-12, *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 removes certain exceptions to the general principles in Accounting Standards Codification ("ASC") 740 and also clarifies and amends existing guidance to provide for more consistent application. ASU 2019-12 became effective for us on January 1, 2021. The adoption of ASU 2019-12 did not have a material impact on our financial position, results of operations and cash flows.

In November 2018, the FASB issued Accounting Standards Update No. 2018-18, *Collaborative Arrangements: Clarifying the Interaction Between Topic 808 and Topic 606* ("ASU 2018-18"). ASU 2018-18 requires transactions in collaborative arrangements to be accounted for under ASC 606 if the counterparty is a customer for a good or service (or bundle of goods and services) that is a distinct unit of account. The amendment also precludes entities from presenting consideration from transactions with a collaborator that is not a customer together with revenue recognized from contracts with customers. ASU 2018-18 became effective for us on January 1, 2020. The adoption of ASU 2018-18 did not have a material impact on our financial position, results of operations and cash flows.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect amounts reported in the financial statements and accompanying notes. Our significant estimates and judgments include those related to revenue recognition, valuation of excess and obsolete inventory, lives and recoverability of equipment and other long-lived assets, valuation of goodwill, valuation of share-based payments, income taxes, litigation and other contingencies. The actual results experienced could differ materially from our estimates.

NOTE 2: BALANCE SHEET COMPONENTS

Accounts Receivable, Net

Accounts receivable are contract assets that arise from the performance of our obligation pursuant to our contracts with our customers and represent our unconditional right to payment for the satisfaction of our performance obligations. They are recorded at invoiced amount and do not bear interest when recorded or accrue interest when past due. Accounts receivable are stated net of an allowance for doubtful accounts, which is maintained for estimated losses that may result from the inability of our customers to make required payments.

Accounts receivable consists of the following:

	June 30, 2021	December 31, 2020
Accounts receivable, gross	\$ 6,374	\$ 4,713
Less: allowance for doubtful accounts	(23)	(41)
Accounts receivable, net	<u>\$ 6,351</u>	<u>\$ 4,672</u>

The following is the change in our allowance for doubtful accounts:

	Six Months Ended June 30,	
	2021	2020
Balance at beginning of period	\$ 41	\$ 23
Additions charged (reductions credited)	(18)	11
Balance at end of period	<u>\$ 23</u>	<u>\$ 34</u>

Inventories

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

Inventories consist of the following:

	June 30, 2021	December 31, 2020
Finished goods	\$ 741	\$ 1,775
Work-in-process	836	670
Inventories	<u>\$ 1,577</u>	<u>\$ 2,445</u>

Property and Equipment, Net

Property and equipment, net consists of the following:

	June 30, 2021	December 31, 2020
Gross carrying amount	\$ 21,996	\$ 22,291
Less: accumulated depreciation and amortization	(18,096)	(17,188)
Property and equipment, net	<u>\$ 3,900</u>	<u>\$ 5,103</u>

Acquired Intangible Assets, Net

In connection with the acquisition of ViXS (the "Acquisition"), we recorded certain identifiable intangible assets. Acquired intangible assets resulting from this transaction were assigned to Pixelworks, Inc., and consist of the following:

	June 30, 2021	December 31, 2020
Developed technology	\$ 5,050	\$ 5,050
Customer relationships	1,270	1,270
Backlog and tradename	410	410
	<u>6,730</u>	<u>6,730</u>
Less: accumulated amortization	(6,099)	(5,523)
Acquired intangible assets, net	<u>\$ 631</u>	<u>\$ 1,207</u>

Developed technology and customer relationships are amortized over a useful life of 3 to 5 years. Backlog was fully amortized as of September 30, 2018 and tradename was fully amortized as of March 31, 2019.

Amortization expense for intangible assets was \$271 and \$576 for the three and six months ended June 30, 2021, respectively, \$218 and \$463 were included in cost of revenue for the three and six months ended June 30, 2021, respectively, and \$53 and \$113 were included in selling, general and administrative for the three and six months ended June 30, 2021, respectively, in the condensed consolidated statements of operations. As of June 30, 2021, future estimated amortization expense is as follows:

Six months ending December 31, 2021	\$ 541
Year ending December 31, 2022	90
	<u>\$ 631</u>

Acquired intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Conditions that would trigger an impairment assessment include, but are not limited to, past, current, or expected cash flow or operating losses associated with the asset. There were no such triggering events requiring an impairment assessment of other intangible assets during the six months ended June 30, 2021.

Goodwill

Goodwill resulted from the Acquisition, whereby we recorded goodwill of \$18,407.

Goodwill is not amortized; however, we review goodwill for impairment annually and whenever events or changes in circumstances indicate that the fair value of the reporting unit may be less than its carrying value. Conditions that would trigger an impairment assessment include, but are not limited to, a significant adverse change in our business climate or a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continued losses or adverse changes in legal factors, regulation or business environment. There were no such triggering events requiring a goodwill impairment assessment during the six months ended June 30, 2021. We perform our annual impairment assessment for goodwill on November 30 of each year.

Accrued Liabilities and Current Portion of Long-Term Liabilities

Accrued liabilities and current portion of long-term liabilities consist of the following:

	June 30, 2021	December 31, 2020
Accrued payroll and related liabilities	\$ 2,952	\$ 2,867
Operating lease liabilities, current	2,402	2,039
Current portion of accrued liabilities for asset financings	614	786
Accrued interest payable	362	429
Accrued commissions and royalties	294	474
Deferred revenue	68	179
Accrued costs related to restructuring	—	630
Other	2,053	2,048
Accrued liabilities and current portion of long-term liabilities	<u>\$ 8,745</u>	<u>\$ 9,452</u>

Deferred revenues are contract liabilities that arise when cash payments are received or due in advance of the satisfaction of our performance obligations. Any increase in deferred revenues is driven by cash payments received or due in advance of satisfying our performance obligation pursuant to the contract with the customer. Any decrease in deferred revenues is due to the recognition of revenue related to satisfying our performance obligation.

The change in deferred revenue is as follows:

	Six Months Ended June 30,	
	2021	2020
Deferred revenue:		
Balance at beginning of period	\$ 179	\$ 146
Revenue recognized	(683)	(655)
Revenue deferred	572	585
Balance at end of period	<u>\$ 68</u>	<u>\$ 76</u>

Short-Term Line of Credit

On December 21, 2010, we entered into a Loan and Security Agreement with Silicon Valley Bank (the "Bank"), which was amended on December 14, 2012, December 4, 2013, December 18, 2015, December 15, 2016, July 21, 2017, December 21, 2017, December 18, 2018, December 18, 2019, April 17, 2020 and December 14, 2020 (as amended, the "Revolving Loan Agreement"). The Revolving Loan Agreement provided a secured working capital-based revolving line of credit (the "Revolving Line") in an aggregate amount of up to the lesser of (i) \$10,000, or (ii) \$2,500 plus 80% of eligible domestic accounts receivable and certain foreign accounts receivable of both Pixelworks and ViXS Systems, Inc., subject to certain limitations on the amount of accounts receivables attributable to ViXS. In addition, the Revolving Loan Agreement provided for non-formula advances of up to \$10,000 which may have been made solely during the last five business days of any fiscal month or quarter and which were required to be repaid by us on or before the fifth business day after the applicable fiscal month or quarter end. Due to their repayment terms, non-formula advances did not provide us with usable liquidity.

The Revolving Loan Agreement, as amended, contained customary affirmative and negative covenants as well as customary events of default. The occurrence of an event of default could have resulted in the acceleration of our obligations under the Revolving Loan Agreement, as amended, and an increase to the applicable interest rate, and would have permitted the Bank to exercise remedies with respect to its security interest. The Revolving Line had a maturity date of March 26, 2021. We did not renew the Revolving Loan Agreement upon its maturity.

As of December 31, 2020, we had no outstanding borrowings under the Revolving Line.

NOTE 3: MARKETABLE SECURITIES AND FAIR VALUE MEASUREMENTS**Marketable Securities**

We had no marketable securities as of June 30, 2021. As of December 31, 2020, all of our marketable securities were classified as available-for-sale, had contractual maturities of one year or less and consisted of the following:

	Cost	Unrealized Gain (Loss)	Fair Value
Short-term marketable securities:			
As of December 31, 2020:			
Corporate debt securities	253	(3)	250
	<u>\$ 253</u>	<u>\$ (3)</u>	<u>\$ 250</u>

Unrealized holding gains and losses were recorded in accumulated other comprehensive income, a component of shareholders' equity, in the condensed consolidated balance sheets.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Three levels of inputs may be used to measure fair value:

- Level 1: Valuations based on quoted prices in active markets for identical assets and liabilities.
- Level 2: Valuations based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuations based on unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The following table presents information about our assets measured at fair value on a recurring basis in the condensed consolidated balance sheets as of June 30, 2021 and December 31, 2020:

	Level 1	Level 2	Level 3	Total
As of June 30, 2021:				
Assets:				
Cash equivalents:				
Money market funds	\$ 15,123	\$ —	\$ —	\$ 15,123
As of December 31, 2020:				
Assets:				
Cash equivalents:				
Money market funds	\$ 23,832	\$ —	\$ —	\$ 23,832
Short-term marketable securities:				
Corporate debt securities	—	250	—	250

We primarily use the market approach to determine the fair value of our financial assets. The fair value of our current assets and liabilities, including accounts receivable and accounts payable approximates the carrying value due to the short-term nature of these balances. We have currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with U.S. GAAP.

NOTE 4: RESTRUCTURINGS

In August 2020, we executed a restructuring plan to make the operation of the Company more efficient (the "August 2020 Plan"). The August 2020 Plan included an approximately 14% reduction in workforce, primarily in the areas of operations, research and development, sales and marketing.

In January 2020, we executed a restructuring plan to make the operation of the Company more efficient (the "January 2020 Plan"). The January 2020 Plan included an approximately 4% reduction in workforce, primarily in the areas of research and development and sales.

Total restructuring expense included in our condensed consolidated statements of operations for the three and six month periods ended June 30, 2021 and 2020 is comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Operating expenses — restructuring:				
Employee severance and benefits	\$ —	\$ —	\$ —	\$ 592
Total restructuring expense	\$ —	\$ —	\$ —	\$ 592

During the three and six months ended June 30, 2021, we did not record any restructuring expense. During the three months ended June 30, 2020, we did not record any restructuring expense. During the six months ended June 30, 2020 we recorded \$592 in restructuring expense related to the January 2020 Plan.

The following is a rollforward of the accrued liabilities related to restructuring for the six month period ended June 30, 2021:

	Balance as of December 31, 2020	Expensed	Payments	Balance as of June 30, 2021
Employee severance and benefits	\$ 630	\$ —	\$ (630)	\$ —
Accrued costs related to restructuring	\$ 630	\$ —	\$ (630)	\$ —

NOTE 5: LEASES

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets, other current liabilities, and operating lease liabilities in our consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Operating lease ROU assets also exclude lease incentives received. For purposes of calculating operating lease liabilities, lease terms may be deemed to include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

We have operating leases for office buildings and one vehicle. Our leases have remaining lease terms of 1 year to 6 years. Supplemental information related to lease expense and valuation of the ROU assets and lease liabilities was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Operating lease cost:	\$ 586	\$ 676	\$ 1,286	\$ 1,323

	Six Months Ended June 30,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,321	\$ 1,434
Leased assets obtained in exchange for new operating lease liabilities	629	3,052
Weighted average remaining lease term (in years)	3.27	4.01
Weighted average discount rate	4.91 %	5.07 %

Future minimum lease payments under non-cancellable leases as of June 30, 2021 were as follows:

Operating Lease Payments

Six months ending December 31, 2021	\$ 1,252
Years ending December 31:	
2022	2,810
2023	1,382
2024	887
2025	374
2026	374
Thereafter	92
Total operating lease payments	7,171
Less imputed interest	(591)
Total operating lease liabilities	\$ 6,580

As of June 30, 2021, the Company had no operating lease liabilities that had not commenced.

NOTE 6: REVENUE

Revenue is recognized when control of the promised good or service is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Our principal revenue generating activities consist of the following:

Product Sales - We sell integrated circuit products, also known as “chips” or “ICs”, based upon a customer purchase order, which includes a fixed price per unit. We have elected to account for shipping and handling as activities to fulfill the promise to transfer the goods, and not evaluate whether these activities are promised services to the customer. We generally satisfy our single performance obligation upon shipment of the goods to the customer and recognize revenue at a point in time upon shipment of the underlying product.

Our shipments are subject to limited return rights subject to our limited warranty for our products sold. In addition, we may provide other credits to certain customers pursuant to price protection and stock rotation rights, all of which are considered variable consideration when estimating the amount of revenue to recognize. We use the “most likely amount” method to determine the amount of consideration to which we are entitled. Our estimate of variable consideration is reassessed at the end of each reporting period based on changes in facts and circumstances. Historically, returns and credits have not been material.

Engineering Services - We enter into contracts for professional engineering services that include software development and customization. We identify each performance obligation in our engineering services agreements (“ESAs”) at contract inception. The ESA generally includes project deliverables specified by the customer. The performance obligations in the ESA are generally combined into one deliverable, with the pricing for services stated at a fixed amount. Services provided under the ESA generally result in the transfer of control over time. We recognize revenue on ESAs based on the proportion of labor hours expended to the total hours expected to complete the contract performance obligation. ESAs could include substantive customer acceptance provisions. In ESAs that include substantive customer acceptance provisions, we recognize revenue upon customer acceptance.

License Revenue - On occasion, we derive revenue from the license of our internally developed intellectual property (“IP”). Additionally, for certain IP license agreements, royalties are collected as customers sell their own products that incorporate the Company’s IP. IP licensing agreements that we enter into generally provide licensees the right to incorporate our IP components in their products with terms and conditions that vary by licensee. Fees under these agreements generally include license fees or royalty fees relating to our IP and support service fees, resulting in two performance obligations. We evaluate each performance obligation, which generally results in the transfer of control at a point in time for the license fee and over time for support services. Royalties are recognized as revenue is earned, generally when the customer sells its products that incorporate the Company’s IP.

Other - From time-to-time, we enter into arrangements for other revenue generating activities, such as providing technical support services to customers through technical support agreements. In each circumstance, we evaluate such arrangements for our performance obligations which generally results in the transfer of control for such services over time. Historically, such arrangements have not been material to our operating results.

The following table provides information about disaggregated revenue based on the preceding categories for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
IC sales	\$ 13,055	\$ 8,840	\$ 21,692	\$ 21,958
Engineering services, license and other	996	413	1,629	1,069
Total revenues	\$ 14,051	\$ 9,253	\$ 23,321	\$ 23,027

For segment information, including revenue by geographic region, see “Note 10: Segment Information”.

Our contract balances include accounts receivable and deferred revenue. For information concerning these contract balances, see “Note 2: Balance Sheet Components”.

Payment terms and conditions for goods and services provided vary by contract; however, payment is generally required within 30 to 60 days of invoicing.

We have not identified any material costs incurred associated with obtaining a contract with a customer which would meet the criteria to be capitalized, therefore, these costs are expensed as incurred.

The aggregate amount of the transaction price allocated to unsatisfied performance obligations with an original expected duration of greater than one year is \$90, which we expect to recognize ratably over the next 9 months.

NOTE 7: INTEREST INCOME AND OTHER, NET

Interest income and other, consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Other income	\$ 127	\$ 37	\$ 192	\$ 81
Interest expense	50	(82)	36	(122)
Interest income	4	21	9	71
Total interest income and other, net	<u>\$ 181</u>	<u>\$ (24)</u>	<u>\$ 237</u>	<u>\$ 30</u>

NOTE 8: INCOME TAXES

The provision for income taxes during the 2021 and 2020 periods is primarily comprised of current and deferred tax expense in profitable cost-plus foreign jurisdictions, accruals for tax contingencies in foreign jurisdictions and benefits for the reversal of previously recorded foreign tax contingencies due to the expiration of the applicable statutes of limitation. We recorded a benefit for the reversal of previously recorded foreign tax contingencies of \$2 and \$10 during the first six months of 2021 and 2020, respectively.

As we do not believe that it is more likely than not that we will realize a benefit from our U.S. net deferred tax assets, including our U.S. net operating losses, we continue to provide a full valuation allowance against essentially all of those assets, therefore, we do not incur significant U.S. income tax expense or benefit. We have not recorded a valuation allowance against our other foreign net deferred tax assets, with the exception of Canada, as we believe that it is more likely than not that we will realize a benefit from those assets.

As of June 30, 2021 and December 31, 2020, the amount of our uncertain tax positions was a liability of \$1,650 and \$1,610, respectively, as well as a contra deferred tax asset of \$1,267 and \$1,189, respectively. A number of years may elapse before an uncertain tax position is resolved by settlement or statute of limitation. Settlement of any particular position could require the use of cash. If the uncertain tax positions we have accrued for are sustained by the taxing authorities in our favor or if the statute of limitation expires, the reduction of the liability will reduce our effective tax rate. We reasonably expect reductions in the liability for unrecognized tax benefits and interest and penalties of approximately \$138 within the next twelve months due to the expiration of statutes of limitation in foreign jurisdictions. We recognize interest and penalties related to uncertain tax positions in income tax expense in our condensed consolidated statements of operations.

NOTE 9: EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Net loss	\$ (4,382)	\$ (6,552)	\$ (12,457)	\$ (11,951)
Weighted average shares outstanding - basic and diluted	52,283	39,444	51,980	39,156
Net loss per share - basic and diluted	\$ (0.08)	\$ (0.17)	\$ (0.24)	\$ (0.31)

The following shares were excluded from the calculation of diluted net loss per share as their effect would have been anti-dilutive (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Employee equity incentive plans	4,039	4,023	3,958	3,979

Potentially dilutive common shares from employee equity incentive plans are determined by applying the treasury stock method to the assumed exercise of outstanding stock options, the assumed vesting of outstanding restricted stock units, and the assumed issuance of common stock under the employee stock purchase plan.

NOTE 10: SEGMENT INFORMATION

We function as a single operating segment: the design and development of integrated circuits for use in electronic display devices. The majority of our assets are located in the United States.

Geographic Information

Revenue by geographic region, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Japan	\$ 7,415	\$ 7,515	\$ 10,959	\$ 16,001
China	5,772	959	10,049	3,805
United States	417	433	1,183	2,099
Taiwan	376	161	1,042	899
Europe	71	185	71	190
Korea	—	—	17	33
	<u>\$ 14,051</u>	<u>\$ 9,253</u>	<u>\$ 23,321</u>	<u>\$ 23,027</u>

Significant Customers

The percentage of revenue attributable to our distributors, top five end customers, and individual distributors or end customers that represented 10% or more of revenue in at least one of the periods presented, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Distributors:				
All distributors	51 %	65 %	54 %	51 %
Distributor A	24 %	— %	28 %	4 %
Distributor B	12 %	54 %	11 %	29 %
End customers: ¹				
Top five end customers	79 %	73 %	76 %	61 %
End customer A	39 %	25 %	34 %	37 %
End customer B	20 %	— %	19 %	— %
End customer C	6 %	11 %	4 %	6 %
End customer D	4 %	14 %	5 %	7 %
End customer E	1 %	13 %	1 %	5 %
End customer F	— %	10 %	— %	5 %

¹ End customers include customers who purchase directly from us, as well as customers who purchase our products indirectly through distributors.

The following accounts represented 10% or more of total accounts receivable in at least one of the periods presented:

	June 30, 2021	December 31, 2020
Account X	56 %	39 %
Account Y	24 %	20 %

NOTE 11: RISKS AND UNCERTAINTIES

Concentration of Suppliers

We do not own or operate a semiconductor fabrication facility and do not have the resources to manufacture our products internally. We rely on a limited number of foundries and assembly and test vendors to produce all of our wafers and for completion of finished products. We do not have any long-term agreements with any of these suppliers. In light of these dependencies, it is reasonably possible that failure to perform by one of these suppliers could have a severe impact on our results of operations. Additionally, the concentration of these vendors within Taiwan and the People's Republic of China increases our risk of supply disruption due to natural disasters, economic instability, political unrest or other regional disturbances.

Risk of Technological Change

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.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist of cash equivalents and accounts receivable. We limit our exposure to credit risk associated with cash equivalent balances by holding our funds in high quality, highly liquid money market accounts. We limit our exposure to credit risk associated with accounts receivable by carefully evaluating creditworthiness before offering terms to customers.

NOTE 12: COMMITMENTS AND CONTINGENCIES

Indemnifications

Certain of our agreements include indemnification provisions for claims from third-parties relating to our intellectual property. It is not possible for us to predict the maximum potential amount of future payments or indemnification costs under these or similar agreements due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement. We have not made any payments under these agreements in the past, and as of June 30, 2021, we have not incurred any material liabilities arising from these indemnification obligations. In the future, however, such obligations could materially impact our results of operations.

Legal Proceedings

We are subject to legal matters that arise from time to time in the ordinary course of our business. Although we currently believe that resolving such matters, individually or in the aggregate, will not have a material adverse effect on our financial position, our results of operations, or our cash flows, these matters are subject to inherent uncertainties and our view of these matters may change in the future.

Other Contractual Obligation

As part of the Acquisition, we acquired debt associated with an agreement with the Government of Canada called Technology Partnerships Canada ("TPC"). As part of the TPC agreement, ViXS Systems, Inc. was provided funding to assist in research and development expenses of which a portion was later required to be repaid because the conditions for repayment were met. The scheduled payments are made on a quarterly basis and end in January 2024. As of June 30, 2021, \$516 is included in accrued liabilities and current portion of long-term liabilities in our condensed consolidated balance sheets and \$171 is included in long-term liabilities, net of current portion in our condensed consolidated balance sheets.

NOTE 13: SUBSEQUENT EVENTS

On July 26, 2021, we entered into an agreement with a customer to defray a portion of the research and development expenses expected to be incurred by us in connection with our development of an integrated circuit product. Under the agreement, we will receive \$5,800 from the customer within 60 days of the date of the agreement, and may receive up to an additional \$4,800 upon completion of certain development milestones. We currently believe that such amounts will be treated as a reduction to research and development expenses related to the product for accounting purposes.

Development work on the product is currently expected to be performed through 2022. The specific dates and final amounts of our expenses and payments by the customer cannot be determined at this time, and there is no assurance that all amounts will be received by us. In any event, we expect our research and development expenses will exceed the amounts received from the customer. Upon the completion of the development, we expect to sell units of the product to the customer. However, there is no commitment or agreement from the customer for such sales at this time or assurance that the development will be successful.

On August 6, 2021, the Company and its subsidiary, PWSH, entered into a Capital Increase Agreement with certain private equity and strategic investors based in China (collectively, the “Investors”) and certain entities which collectively are owned by approximately 75% of the employees of PWSH and its subsidiaries (collectively, the “ESOP”) (none of the employees are a named executive officer of the Company) (See Exhibit 10.1a). An affiliate of the MTM entities, MTM-Xinhe Investment Limited, purchased shares of common stock from the Company on December 15, 2020, pursuant to an Amended and Restated Securities Purchase Agreement.

Under this Capital Increase Agreement, the purchasers have agreed to pay to PWSH, subject to certain closing conditions, certain amounts in RMB in exchange for an equity position in PWSH. More specifically:

- (a) The ESOP have agreed to pay a total of RMB 79,700 (\$12,300 USD) in exchange for an equity interest in PWSH of 5.95%, based on a pre-money valuation of PWSH of RMB 1,120,000 (\$172,700 USD), a discount of 30% from the valuation paid by the Investors.
- (b) The Investors have agreed to pay a total of RMB 200,000 (\$30,800 USD) in exchange for an equity interest in PWSH of 10.45%, based on a pre-money value of PWSH of RMB 1,600,000 (\$246,800 USD).

The closing conditions include receipt of all required governmental approvals and the completion of certain elements of the PWSH realignment plan described above in Note 1. Following the closing, which is expected in August of 2021, the Company would continue to hold 83.6% of PWSH. The total net proceeds raised by PWSH would be RMB 279,700 (\$43,100 USD).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" that are based on current expectations, estimates, beliefs, assumptions and projections about our business. Words such as "may," "will," "appears," "predicts," "continue," "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and the negative or other variations of such words and similar expressions are intended to identify such forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding: the impact of the COVID-19 pandemic (including any changes in laws or regulations in reaction to same) on Company personnel, on revenue, on Company suppliers, and on Company customers and their respective end markets; the sale of shares of our subsidiary, Pixelworks Semiconductor Technology (Shanghai) Co., Ltd.

("PWSH"), to purchasers, including the timing thereof, the expected proceeds and use thereof, and the resulting ownership of PWSH; the Company's strategic plan of re-aligning its mobile, projector, and video delivery businesses and timing and expectations related thereto, including the Listing and timing and benefits thereof, including improved access to new capital markets and the funding of its growth worldwide; our international operations; our strategy, including with respect to our intellectual property portfolio, research and development efforts and acquisition and investment opportunities; our gross profit margin; our restructuring programs, including estimates, timing and impact thereof, as well as any future restructuring programs; our liquidity, capital resources and the sufficiency of our working capital and need for, or ability to secure, additional financing and the potential impact thereof; our contractual obligations, exchange rate and interest rate risks; our income taxes, including our ability to realize the benefit of net deferred tax assets, our uncertain tax position liability; accounting policies and use of estimates and potential impact of changes thereto; our revenue, the potential impact on our business of certain risks, including the concentration of our suppliers, risks of technological change, concentration of credit risk, changes in the markets in which we operate, our international operations, including in Asia and our exchange rate risks, our indemnification obligations and litigation risks and statements relating to our customer agreement that defrays R&D expenses, including amounts to be received thereunder, the accounting treatment thereof, the timing of the work thereunder, expenses related thereto and our expectations with respect to sales related thereto. These statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict and which may cause actual outcomes and results to differ materially from what is expressed or forecasted in such forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements, including risks related to COVID-19, risks related to our business, risks related to our industry, is included in Part II, Item 1A of this Quarterly Report on Form 10-Q. These forward-looking statements speak only as of the date on which they are made, and we do not intend to update any forward-looking statement to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q unless required by law. If we do update or correct one or more forward-looking statements, you should not conclude that we will make additional updates or corrections with respect thereto or with respect to other forward-looking statements. Except where the context otherwise requires, in this Quarterly Report on Form 10-Q, the "Company," "Pixelworks," "we," "us" and "our" refer to Pixelworks, Inc., an Oregon corporation, and its wholly-owned subsidiaries.

COVID-19

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, and the virus continues to spread in areas where we operate and sell our products and services. Several public health organizations have recommended, and many local governments have implemented, certain measures to slow and limit the transmission of the virus, including shelter in place and social distancing ordinances, which has resulted in a significant deterioration of economic conditions in many of the countries in which we operate.

The spread of COVID-19 has caused us to modify our business practices, including implementing work-from-home policies and restricting travel by our employees.

The impact of the pandemic on the global economy and on our business, as well as on the business of our suppliers and customers, and the measures that may be needed in the future in response to it, will depend on many factors beyond our control and knowledge. We will continually monitor the situation to determine what actions may be necessary or appropriate to address the impact of the pandemic, which may include actions mandated or recommended by federal, state or local authorities. While we expect the impacts of COVID-19 to be temporary, the disruptions caused by the virus have negatively affected our revenue and results of operations in 2020 and 2021. For example, our revenues for fiscal year 2020 were lower than initially anticipated and we expect our revenues for 2021 to continue to be negatively impacted by COVID-19.

Co-Development Agreement

On July 26, 2021, we entered into an agreement with a customer to defray a portion of the research and development expenses expected to be incurred by us in connection with our development of an integrated circuit product. Under the agreement, we will receive \$5.8 million from the customer within 60 days of the date of the agreement, and may receive up to an additional \$4.8 million upon completion of certain development milestones. We currently believe that such amounts will be treated as a reduction to research and development expenses related to the product for accounting purposes.

Development work on the product is currently expected to be performed through 2022. The actual timing and amount of our expenses and payments by the customer cannot be determined at this time, and there is no assurance that all amounts will be received by us. In any event, we expect our research and development expenses will exceed the amounts received from the customer. Upon the completion of the development, we expect to sell units of the product to the customer. However, there is no commitment or agreement from the customer for such sales at this time or assurance that the development will be successful.

Capital Increase Agreement

On August 6, 2021, the Company and its subsidiary, PWSH, entered into a Capital Increase Agreement with certain private equity and strategic investors based in China (collectively, the "Investors") and certain entities which collectively are owned by approximately 75% of the employees of PWSH and its subsidiaries (collectively, the "ESOP").

Under this Capital Increase Agreement, the purchasers have agreed to pay to PWSH, subject to certain closing conditions, certain amounts in RMB in exchange for an equity position in PWSH. More specifically:

- (a) The ESOP have agreed to pay a total of RMB 79.7 million (\$12.3 million USD) in exchange for an equity interest in PWSH of 5.95%, based on a pre-money valuation of PWSH of RMB 1.12 billion (\$172.7 million USD), a discount of 30% from the valuation paid by the Investors.
- (b) The Investors have agreed to pay a total of RMB 200 million (\$30.8 million USD) in exchange for an equity interest in PWSH of 10.45%, based on a pre-money value of PWSH of RMB 1.6 billion (\$246.8 million USD).

The total net proceeds raised by PWSH would be RMB 279.7 million (\$43.1 million USD). Additional information is provided in Note 13, which is incorporated by reference into this section.

Overview

Pixelworks is a leading provider of high-performance and power-efficient visual processing solutions that bridge the gap between video content formats and rapidly advancing display capabilities. We develop and market semiconductor and software solutions that enable consistently high-quality, authentic viewing experiences in a wide variety of applications from cinema to smartphones. Our primary target markets include Mobile (smartphone, gaming and tablet), Home Entertainment (TV, personal video recorder ("PVR"), over-the-air ("OTA") and projector), Content (creation, remastering and delivery), and Business & Education (projector).

We were one of the first companies to commercially launch a video System on Chip ("SoC") capable of deinterlacing 1080i HDTV signals and one of the first companies with a commercial dual-channel 1080i deinterlacer integrated circuit. Our Topaz product line was one of the industry's first single-chip SoC for digital projection. We first introduced our motion estimation / motion compensation technology ("MEMC") for TVs and in recent years introduced a mobile-optimized MEMC solution for smartphones, one of several unique features in the mobile-optimized Iris visual processor. In 2019, we introduced our Hollywood award-winning TrueCut® video platform, the industry's first motion grading technology that allows fine tuning of motion appearance in cinematic content for a wide range of frame rates, shutter angles and display types.

Our solutions enable worldwide manufacturers to offer leading-edge consumer electronics and professional display products, as well as video delivery and streaming solutions for content service providers. Our core visual display processing technology intelligently processes digital images and video from a variety of sources and optimizes the content for a superior viewing experience. Our video coding technology reduces storage requirements, significantly reduces bandwidth constraint issues and converts content between multiple formats to enable seamless delivery of video, including OTA streaming, while also maintaining end-to-end content security.

Rapid growth in video consumption, combined with the move towards high frame rate / refresh rate displays, especially in mobile, is increasing the demand for our visual processing and video delivery solutions. Our technologies can be applied to a wide range of devices from large-screen projectors to cinematic big screens, to low-power mobile tablets and smartphones, to high-quality video infrastructure equipment and streaming devices. Our products are architected and optimized for power, cost, bandwidth, and overall system performance, according to the requirements of the specific application. On occasion, we have also licensed our technology.

We have engaged in a strategic plan to re-align our mobile, projector, and video delivery businesses to improve their focus on the Asia-centered customers and employee stakeholders of those businesses. The global center of the mobile, projector, and video delivery businesses continues to be in Asia, and the steps taken by us to date and going forward are intended to improve our ability to access capital, customers, and talent. We have operated its primary R&D center in Asia for over 15 years and feel that the time is right to take advantage of that existing footprint and develop PWSH as a full profit-and-loss center underneath Pixelworks, Inc. for the mobile, projector, and video delivery businesses. Most of these steps have been completed or will be completed before the end of 2021.

This plan will further enable PWSH to seek qualification to file an application for an initial public offering on the Shanghai Stock Exchange's Sci-Tech innovAtion boARd, known as the STAR Market (the "Listing"). We believe that the Listing will have many benefits, including improved access to new capital markets and the funding of its growth worldwide. The Company presently intends to qualify PWSH to apply for the Listing so that the Listing is consummated in the first half of 2023. The process of going public on the STAR Market includes several periods of review and, therefore, is a lengthy process. There is no guarantee that PWSH will be approved for a Listing at any point in the future.

As of June 30, 2021, we had an intellectual property portfolio of 335 patents related to the visual display of digital image data. We focus our research and development efforts on developing video algorithms that improve quality, and architectures that reduce system power, cost and bandwidth and increase overall system performance and device functionality. We seek to expand our technology portfolio through internal development and co-development with business partners, and we continually evaluate acquisition opportunities and other ways to leverage our technology into other high-value markets.

Results of Operations

Revenue, net

Net revenue for the three and six month periods ended June 30, 2021 and 2020, was as follows (dollars in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	% Change	2021	2020	% Change
Revenue, net	\$ 14,051	\$ 9,253	52 %	\$ 23,321	\$ 23,027	1 %

Net revenue increased \$4.8 million, or 52%, in the second quarter of 2021 compared to the second quarter of 2020 and increased \$0.3 million, or 1% in the first half of 2021 compared to the first half of 2020.

Revenue recorded in the second quarter of 2021 consisted of \$13.1 million in revenue from the sale of integrated circuit ("IC") products and \$1.0 million in revenue related to engineering services, license revenue and other. Revenue recorded in the second quarter of 2020 consisted of \$8.8 million in revenue from the sale of IC products and \$0.4 million in revenue related to engineering services, license revenue and other.

Revenue recorded in the first half of 2021 consisted of \$21.7 million in revenue from the sale of IC products and \$1.6 million in revenue related to engineering services, license revenue and other. Revenue recorded in the first half of 2020 consisted of \$21.9 million in revenue from the sale of IC products and \$1.1 million in revenue related to engineering services, license revenue and other.

The increase in IC revenue in the second quarter of 2021 compared to the second quarter of 2020 is primarily due to increased unit sales into the digital projector market and increased unit sales into the mobile market as we experienced increased demand compared to the second quarter of 2020.

IC revenue was consistent when comparing the first half of 2021 to the first half of 2020, which is a result of slightly decreased unit sales into the digital projector market offset by a significant increase in unit sales into the mobile market.

Cost of revenue and gross profit

Cost of revenue and gross profit for the three and six month periods ended June 30, 2021 and 2020, were as follows (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2021	% of revenue	2020	% of revenue	2021	% of revenue	2020	% of revenue
Direct product costs and related overhead ¹	\$ 6,646	47 %	\$ 3,783	41 %	\$ 11,867	51 %	\$ 10,294	45 %
Amortization of acquired intangible assets	218	2	298	3	463	2	596	3
Stock-based compensation	76	1	127	1	155	1	228	1
Inventory charges ²	—	0	(4)	0	—	0	85	0
Total cost of revenue	\$ 6,940	49 %	\$ 4,204	45 %	\$ 12,485	54 %	\$ 11,203	49 %
Gross profit	\$ 7,111	51 %	\$ 5,049	55 %	\$ 10,836	46 %	\$ 11,824	51 %

¹ Includes purchased materials, assembly, test, labor, employee benefits and royalties.

² Includes charges to reduce inventory to lower of cost or market and a benefit for sales of previously written down inventory.

Gross profit margin was 51% in the second quarter of 2021 compared to 55% in the second quarter of 2020 and was 46% in the first half of 2021 compared to 51% in the first half of 2020. The decrease in gross profit margin over both periods presented was primarily due to product mix and increased product costs.

Pixelworks' gross profit margin is subject to variability based on changes in revenue levels, product mix, average selling prices, startup costs, restructuring charges, amortization related to acquired intangible assets, and the timing and execution of manufacturing ramps as well as other factors.

Research and development

Research and development expense includes compensation and related costs for personnel, development-related expenses, including non-recurring engineering expenses and fees for outside services, depreciation and amortization, expensed equipment, facilities and information technology expense allocations and travel and related expenses.

Research and development expense for the three and six month periods ended June 30, 2021 and 2020, was as follows (dollars in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	% Change	2021	2020	% Change
Research and development	\$ 6,671	\$ 6,314	6 %	\$ 13,456	\$ 12,581	7 %

Research and development expense increased \$0.4 million, or 6% in the second quarter of 2021 compared to the second quarter of 2020 and increased \$0.9 million, or 7% in the first half of 2021 compared to the first half of 2020. The increases in the 2021 periods compared to the 2020 periods were primarily due to an increase in compensation expense due to a COVID-19 relief benefit received in China in 2020 that was not received in 2021. The increases were also due to an increase in non-recurring engineering expense due to the timing of development activities.

Selling, general and administrative

Selling, general and administrative expense includes compensation and related costs for personnel, sales commissions, facilities and information technology expense allocations, travel, outside services and other general expenses incurred in our sales, marketing, customer support, management, legal and other professional and administrative support functions.

Selling, general and administrative expense for the three and six month periods ended June 30, 2021 and 2020, was as follows (dollars in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	% Change	2021	2020	% Change
Selling, general and administrative	\$ 4,896	\$ 5,156	(5)%	\$ 9,750	\$ 10,349	(6)%

Selling, general and administrative expense decreased \$0.3 million, or 5%, in the second quarter of 2021 compared to the second quarter of 2020 and decreased \$0.6 million, or 6% in the first half of 2021 compared to the first half of 2020. The decreases in the 2021 periods compared to the 2020 periods were primarily due to a decrease in compensation expense due to a reduction in headcount and a decrease in stock-based compensation expense due to the timing of awards granted.

Restructurings

In August 2020, we executed a restructuring plan to make the operation of the Company more efficient (the "August 2020 Plan"). The August 2020 Plan included an approximately 14% reduction in workforce, primarily in the areas of operations, research and development, sales and marketing.

In January 2020, we executed a restructuring plan to make the operation of the Company more efficient (the "January 2020 Plan"). The January 2020 Plan included an approximately 4% reduction in workforce, primarily in the areas of research and development and sales.

Restructuring expense for the three and six month periods ended June 30, 2021 and 2020, was as follows and was included in operating expenses (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Employee severance and benefits	\$ —	\$ —	\$ —	\$ 592
Total restructuring expense	\$ —	\$ —	\$ —	\$ 592

During the three and six months ended June 30, 2021, we did not record any restructuring expense. During the three months ended June 30, 2020, we did not record any restructuring expense. During the six months ended June 30, 2020 we recorded \$0.6 million in restructuring expense related to the January 2020 Plan. The January 2020 Plan was complete in the first quarter of 2020 and we did not incur any further charges related to the January 2020 Plan after the first quarter of 2020.

Provision for income taxes

The provision for income taxes during the 2021 and 2020 periods is primarily comprised of current and deferred tax expense in profitable cost-plus foreign jurisdictions, accruals for tax contingencies in foreign jurisdictions and benefits for the reversal of previously recorded foreign tax contingencies due to the expiration of the applicable statutes of limitation. We recorded a negligible benefit for the reversal of previously recorded foreign tax contingencies during the first half of 2021 and during the first half of 2020.

Liquidity and Capital Resources

Cash, cash equivalents and short-term marketable securities

Total cash and cash equivalents decreased \$7.6 million to \$23.6 million at June 30, 2021 from \$31.3 million at December 31, 2020. Short-term marketable securities decreased \$0.3 million to zero at June 30, 2021 from \$0.3 million at December 31, 2020. The net decrease in cash, cash equivalents and short-term marketable securities of \$7.8 million during the first half of 2021 was the result of \$8.0 million used in operating activities, \$0.4 million used for purchases of property and equipment and \$0.5 million used for payments on other asset financings. These decreases were partially offset by \$1.1 million in proceeds from the issuances of common stock under our employee equity incentive plans.

As of June 30, 2021, our cash and cash equivalents balance consisted of \$15.1 million in cash equivalents held in U.S. dollar denominated money market funds and \$8.5 million in cash. Our investment policy requires that our portfolio maintain a weighted average maturity of less than 12 months. Additionally, no maturities can extend beyond 24 months and concentrations with individual securities are limited. At the time of purchase, the short-term credit rating must be rated at least A-2 / P-2 / F-2 by at least two Nationally Recognized Statistical Rating Organizations ("NRSRO") and securities of issuers with a long-term credit rating must be rated at least A or A3 by at least two NRSRO. Our investment policy is reviewed at least annually by our Audit Committee.

Accounts receivable, net

Accounts receivable, net increased to \$6.4 million as of June 30, 2021 from \$4.7 million as of December 31, 2020. The average number of days sales outstanding decreased to 41 days as of June 30, 2021 from 44 days as of December 31, 2020. The increase in accounts receivable was due to normal fluctuations in the timing of sales and customer receipts within the second quarter of 2021, and the fourth quarter of 2020.

Inventories

Inventories were \$1.6 million as of June 30, 2021 compared to \$2.4 million at December 31, 2020. Inventory turnover increased to 16.0 as of June 30, 2021 from 6.0 as of December 31, 2020 primarily due to lower average inventory balances during the second quarter of 2021 compared to the fourth quarter of 2020. Inventory turnover is calculated based on annualized quarterly operating results and average inventory balances during the quarter.

Capital resources

Short-term line of credit

On December 21, 2010, we entered into a Loan and Security Agreement with Silicon Valley Bank (the "Bank"), which was amended on December 14, 2012, December 4, 2013, December 18, 2015, December 15, 2016, July 21, 2017, December 21, 2017, December 18, 2018, December 18, 2019, April 17, 2020 and December 14, 2020 (as amended, the "Revolving Loan Agreement"). The Revolving Loan Agreement provided a secured working capital-based revolving line of credit (the "Revolving Line") in an aggregate amount of up to the lesser of (i) \$10.0 million, or (ii) \$2.5 million plus 80% of eligible domestic accounts receivable and certain foreign accounts receivable of both Pixelworks and ViXS Systems, Inc., subject to certain limitations on the amount of accounts receivables attributable to ViXS. In addition, the Revolving Loan Agreement provided for non-formula advances of up to \$10.0 million which may have been made solely during the last five business days of any fiscal month or quarter and which were required to be repaid by us on or before the fifth business day after the applicable fiscal month or quarter end. Due to their repayment terms, non-formula advances did not provide us with usable liquidity.

The Revolving Loan Agreement contained customary affirmative and negative covenants as well as customary events of default. The occurrence of an event of default could have resulted in the acceleration of our obligations under the Revolving Loan Agreement, and an increase to the applicable interest rate, and would have permitted the Bank to exercise remedies with respect to its security interest. The Revolving Line had a maturity date of March 26, 2021. We did not renew the Revolving Loan Agreement upon its maturity.

As of December 31, 2020, we had no outstanding borrowings under the Revolving Line.

Paycheck Protection Program Loan

On April 25, 2020, we entered into a loan with Silicon Valley Bank as the lender in an aggregate principal amount of \$0.8 million (the "Loan") pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act").

The Loan was evidenced by a promissory note (the "Note") dated April 25, 2020 and matured 2 years from the disbursement date. The Note had an interest rate of 1.000% per annum, with the first six months of interest deferred. Principal and interest were payable monthly commencing 6 months after the disbursement date and were able to be prepaid by the Company at any time prior to maturity with no prepayment penalties. The Note contained customary events of default relating to, among other things, payment defaults or breaches of the terms of the Note. Upon the occurrence of an event of default, the Lender could require immediate repayment of all amounts outstanding under the Note.

Under the terms of the CARES Act, PPP loan recipients could apply for and be granted forgiveness for all or a portion of loans granted under the PPP. The Loan was subject to forgiveness to the extent proceeds were used for payroll costs, including payments required to continue group health care benefits and certain rent, utility, and mortgage interest expenses (collectively, "Qualifying Expenses"), pursuant to the terms and limitations of the PPP. We used the Loan amount for Qualifying Expenses. During the fourth quarter of 2020, we applied for and received full forgiveness and recorded a gain of \$0.8 million within other income in our consolidated statements of operations.

Equity Offering

On December 14, 2020, we completed the sale of 4,900,000 shares of common stock in an underwritten registered offering. On December 16, 2020, an additional 735,000 shares were issued pursuant to the 30-day over-allotment option exercised by the underwriter. With the over-allotment shares, a total of 5,635,000 shares of common stock were sold in the offering at a price to the public of \$2.45 per share. Net proceeds to the Company, after deducting underwriting discounts, commissions, and other expenses, were approximately \$12.7 million.

Private Placement Investment

On December 7, 2020, we completed a private placement of 724,288 shares of common stock to a certain accredited investor at a purchase price of \$2.071 per share. On December 15, 2020, we completed a private placement of 2,475,712 shares of common stock to a certain accredited investor at a purchase price of \$2.071. Net proceeds to the Company, after deducting commissions and other expenses, were approximately \$6.2 million.

At the Market Offering

On June 5, 2020, we entered into a sales agreement (the "Sales Agreement") with Cowen and Company, LLC ("Cowen"), pursuant to which we may issue and sell shares of the Company's common stock, par value \$0.001 per share, having an aggregate offering price of up to \$25,000, from time to time, through an "at the market" equity offering program under which Cowen will act as sales agent. Under the Sales Agreement, Cowen may sell the shares by methods deemed to be an "at the market offering" as defined in Rule 415(a)(4) promulgated under the Securities Act of 1933, as amended, including sales made by means of ordinary brokers' transactions on the Nasdaq Global Market or on any other existing trading market for the common stock or otherwise at market prices prevailing at the time of sale, in block transactions, or as otherwise directed by the Company. We pay Cowen a commission equal to three percent (3.0%) of the gross sales proceeds of any common stock sold through Cowen under the Sales Agreement. The Sales Agreement may be terminated by us upon prior notice to Cowen or by Cowen upon prior notice to us, or at any time under certain circumstances, including but not limited to the occurrence of a material adverse change in the Company. We are not obligated to sell any shares under the Sales Agreement.

During the year ended December 31, 2020, we sold an aggregate of 1,747,466 shares of our common stock under this at the market offering, resulting in aggregate net proceeds to us of approximately \$4.4 million, and gross proceeds of approximately \$4.9 million and paid Cowen commissions and fees of approximately \$0.2 million, and other expenses of \$0.3 million. There was no activity under this at the market offering during the six months ended June 30, 2021.

Capital Increase Agreement

We have entered into a Capital Increase Agreement pursuant to which our subsidiary PWSH, is expected to receive net proceeds from the sale of its securities pursuant thereto in an amount of approximately RMB 279.7 million (\$43.1 million USD) in August 2021. Additional information is provided in Note 13, which is incorporated by reference into this section.

Liquidity

As of June 30, 2021, our cash and cash equivalents balance of \$23.6 million was highly liquid. We anticipate that our existing working capital will be adequate to fund our operating, investing and financing needs for at least the next twelve months. In addition to the Capital Increase Agreement, we may pursue financing arrangements including the issuance of debt or equity securities or reduce expenditures, or both, to meet our cash requirements, including in the longer term. There is no assurance that, if required, we will be able to raise additional capital or reduce discretionary spending to provide the required liquidity which, in turn, may have an adverse effect on our financial position, results of operations and cash flows.

From time to time, we evaluate acquisitions of businesses, products or technologies that complement our business. Any transactions, if consummated, may consume a material portion of our working capital or require the issuance of equity securities that may result in dilution to existing shareholders. Our ability to generate cash from operations is also subject to substantial risks described in Part II, "Item 1A., Risk Factors." If any of these risks occur, we may be unable to generate or sustain positive cash flow from operating activities. We would then be required to use existing cash and cash equivalents to support our working capital and other cash requirements. If additional funds are required to support our working capital requirements, acquisitions or other purposes, we may seek to raise funds through debt financing, equity financing or from other sources. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our shareholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing shareholders. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operating flexibility and would also require us to incur interest expense. We can provide no assurance that additional financing will be available at all or, if available, that we would be able to obtain additional financing on terms favorable to us.

Contractual Payment Obligations

Our contractual obligations for 2021 and beyond are included in our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the Securities and Exchange Commission on March 10, 2021. Our obligations for 2021 and beyond have not changed materially as of June 30, 2021.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Based on management's evaluation (with the participation of our Chief Executive Officer (our Principal Executive Officer) and Chief Financial Officer (our Principal Financial Officer)), our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) to determine if they provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II – OTHER INFORMATION

Item 1A. Risk Factors.

The following risks could materially and adversely affect our business, financial condition, and results of operations, and the trading price of our common stock could decline. These risk factors do not identify all of the risks that we face. Our business operations could also be affected by factors that we currently consider to be immaterial or that are unknown to us at the present time. Investors should also refer to the other information contained in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, including our consolidated financial statements and related notes, and our other filings made from time to time with the Securities and Exchange Commission ("SEC").

Risks Related to COVID-19

The ongoing effects of the COVID-19 pandemic could disrupt our business or the business of our customers or suppliers, and as such, may adversely affect our financial condition.

Our business, the businesses of our customers, and the businesses of our suppliers could be materially and adversely affected by the effects of the COVID-19 pandemic and the related governmental, business and community responses to it. Additionally, the economies and financial markets of many countries have been impacted by the pandemic, and the longevity and significance of the resulting economic impact is currently unknown. A significant economic downturn could materially and adversely affect our end customers, and thus could negatively impact demand for our products and our operating results.

In response to the COVID-19 pandemic, many state governments in the U.S. issued restrictive orders, including “shelter in place” or “stay at home” orders, that restricted its residents from leaving their homes or returning to work. At Pixelworks, our offices in Japan and North America are currently operating in office and remotely. The potential future impact of any “stay at home” orders or other similar COVID-related restraints on movement, may adversely impact the efficiency and effectiveness of our organization, as well as the operations of our suppliers and customers. We face additional risks and challenges related to having a portion of our workforce working from home, including added pressure on our IT systems and the security of our network, and new challenges as our team adjusts to online collaboration. Additionally, our sales team may not be able to make sales calls to current and potential customers at the same volume as they did prior to the outbreak of the pandemic as they juggle varying competing interests. Also, our ability to make in-person sales calls may be affected in areas with stay at home orders or other restrictions in place, which may, in turn, affect our revenues.

The outbreak of COVID-19 may put additional pressures on our supply chain, including temporary or long-term disruption or delays. If the impact of an outbreak continues for an extended period, it could adversely impact our supply chain and the growth of our revenues. COVID-19 may result in supply shortages of our products or our ability to import, export or sell product to customers in both the U.S. and international markets. Any decrease, limitations or delays on our ability to import, export, or sell our products would harm our business.

The continued uncertain global economic environment and volatility in global credit and financial markets could materially and adversely affect our business and results of operations.

The state of the global economy continues to be uncertain. As a result of these conditions, our manufacturers, vendors and customers might experience deterioration of their businesses, cash flow shortages and difficulty obtaining financing, which could result in interruptions or delays in the performance of any contracts, reductions and delays in customer purchases, delays in or the inability of customers to obtain financing to purchase our products, and bankruptcy of customers. Furthermore, the constraints in the capital and credit markets, may limit the ability of our customers to meet their liquidity needs, which could result in an impairment of their ability to make timely payments to us and reduce their demand for our products, adversely impacting our results of operations and cash flows. This environment has also made it difficult for us to accurately forecast and plan future business activities.

Company Specific Risks

If we fail to meet the evolving needs of our markets, identify new products, services or technologies, or successfully compete in our target markets, our revenue and financial results will be adversely impacted.

Pixelworks designs, develops and markets visual processing and advanced media processing solutions in the mobile video, digital projection and video delivery markets. Our success depends to a significant extent on our ability to meet the evolving needs of these markets and to enhance our existing products, solutions and technologies. In addition, our success depends on our ability to identify emerging industry trends and to develop new products, solutions and technologies. Our existing markets and products and new markets and products may require a considerable investment of technical, financial, compliance, sales and marketing resources.

We cannot assure you that our strategic direction will result in innovative products and technologies that provide value to our customers and partners. If we fail to anticipate the changing needs of our target markets and emerging technology trends, or adapt that strategy as market conditions evolve, in a timely manner to exploit potential market opportunities our business will be harmed. In addition, if demand for products and solutions from these markets is below our expectations, if we fail to achieve consumer or market acceptance of them or if we are not able to develop these products and solutions in a cost effective or efficient manner, we may not realize benefits from our strategy.

Our target markets remain extremely competitive, and we expect competition to intensify as current competitors expand their product and/or service offerings, industry standards continue to evolve and new competitors enter these markets. If we are unable to successfully compete in our target markets, demand for our products, solutions and technologies could decrease, which would cause our revenue to decline and our financial results to suffer.

Our product strategy, which is targeted at markets demanding superior video and digital image quality as well as efficient video delivery, may not address the demands of our target customers and may not lead to increased revenue in a timely manner or at all, which could materially adversely affect our results of operations and limit our ability to grow.

We have adopted a product strategy that focuses on our core competencies in visual display processing and delivering high levels of video and digital image quality. With this strategy, we continue to make further investments in the development of our image processor architecture for the digital projector market, with particular focus on adding increased performance and functionality. For the mobile device market, our strategy focuses on implementing our intellectual property ("IP") to improve the video performance of our customers' image processors through the use of our MotionEngine® advanced video co-processor integrated circuits. This strategy is designed to address the needs of the high-resolution and high-quality segment of these markets. Such markets may not develop or may take longer to develop than we expect. We cannot assure you that the products we are developing will adequately address the demands of our target customers, or that we will be able to produce our new products at costs that enable us to price these products competitively.

Achieving design wins involves lengthy competitive selection processes that require us to incur significant expenditures prior to generating any revenue or without any guarantee of any revenue related to this business. If we fail to generate revenue after incurring substantial expenses to develop our products, our business and operating results would suffer.

We must achieve "design wins" that enable us to sell our semiconductor solutions for use in our customers' products. These competitive selection processes typically are lengthy and can require us to incur significant research and development expenditures and dedicate scarce engineering resources in pursuit of a single customer opportunity. We may not achieve a design win and may never generate any revenue despite incurring significant research and development expenditures. This could cause us to lose revenue and require us to write off obsolete inventory and could weaken our position in future competitive selection processes.

Even if our product strategy is properly targeted, we cannot assure you that the products we are developing will lead to an increase in revenue from new design wins. To achieve design wins, we must design and deliver cost-effective, innovative and integrated semiconductors that overcome the significant costs associated with qualifying a new supplier and which make developers reluctant to change component sources. Additionally, potential developers may be unwilling to select our products due to concerns over our financial strength. Further, design wins do not necessarily result in developers ordering large volumes of our products. Developers can choose at any time to discontinue using our products in their designs or product development efforts. A design win is not a binding commitment by a developer to purchase our products, but rather a decision by a developer to use our products in its design process. Even if our products are chosen to be incorporated into a developer's products, we may still not realize significant revenue from the developer if its products are not commercially successful or it chooses to qualify, or incorporate the products, of a second source. Additionally, even if our product strategy is successful at achieving design wins and increasing our revenue, we may continue to incur operating losses due to the significant research and development costs that are required to develop competitive products for the digital projection market and mobile market.

System security and data protection breaches, as well as cyber-attacks, could disrupt our operations, reduce our expected revenue and increase our expenses, which could adversely affect our stock price and damage our reputation.

Security breaches, computer malware and cyber-attacks have become more prevalent and sophisticated in recent years. These attacks have occurred on our systems in the past and are expected to occur in the future. Experienced computer programmers, hackers and employees may be able to penetrate our security controls and misappropriate or compromise our confidential information, or that of our employees or third parties. These attacks may create system disruptions or cause shutdowns. For portions of our IT infrastructure, including business management and communication software products, we rely on products and services provided by third parties. These providers may also experience breaches and attacks to their products which may impact our systems. Data security breaches may also result from non-technical means, such as actions by an employee with access to our systems.

Actual or perceived breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us, our partners, our customers or third parties could expose the parties affected to a risk of loss, or misuse of this information, resulting in litigation and potential liability, damage to our brand and reputation or other harm to our business. Our efforts to prevent and overcome these challenges could increase our expenses and may not be successful. We may experience interruptions, delays, cessation of service and loss of existing or potential customers. Such disruptions could adversely impact our ability to fulfill orders and interrupt other critical functions. Delayed sales, lower margins or lost customers as a result of these disruptions could adversely affect our financial results, stock price and reputation.

If we fail to retain or attract the specialized technical and management personnel required to successfully operate our business, it could harm our business and may result in lost sales and diversion of management resources.

Our success depends on the continued services of our executive officers and other key management, engineering, and sales and marketing personnel and on our ability to continue to attract, retain and motivate qualified personnel. Competition for skilled engineers and management personnel is intense within our industry, and we may not be successful in hiring and retaining qualified individuals. For example, we have experienced, and may continue to experience, difficulty and increased compensation expense in order to hire and retain qualified engineering personnel in our Shanghai design center. The loss of, or inability to hire, key personnel could limit our ability to develop new products and adapt existing products to our customers' requirements, and may result in lost sales and a diversion of management resources. Any transition in our senior management team may involve a diversion of resources and management attention, be disruptive to our daily operations or impact public or market perception, any of which could have a negative impact on our business or stock price.

We may not fully realize the estimated savings from our restructurings in a timely manner or at all, and our restructuring programs may result in business disruptions and decrease productivity. Any of the foregoing would negatively affect our financial condition and results of operations.

In each of 2020 and 2019, we executed restructuring plans to make the operation of the Company more efficient. We may not be able to implement our restructuring programs as planned, and we may need to take additional measures to fulfill the objectives of our restructuring. The anticipated expenses associated with our restructuring programs may differ from or exceed our expectations, and we might not be able to realize the full amount of estimated savings from the restructuring programs in a timely manner or at all. Additionally, our restructuring plans may result in business disruptions or decreases in productivity. As a result, our restructuring plans could have an adverse impact on our financial condition or results of operations.

We have significantly fewer financial resources than most of our competitors, which limits our ability to implement new products or enhancements to our current products and may require us to implement additional future restructuring plans, which in turn could adversely affect our future sales and financial condition.

Financial resource constraints could limit our ability to execute our product strategy or require us to implement additional restructuring plans, particularly if we are unable to generate sufficient cash from operations or obtain additional sources of financing. Any future restructuring actions may slow our development of new or enhanced products by limiting our research and development and engineering activities. Our cash balances are also lower than those of our competitors, which may limit our ability to develop competitive new products on a timely basis or at all. If we are unable to successfully introduce new or enhanced products, our sales, operating results and financial condition will be adversely affected.

If we are not profitable in the future, we may be unable to continue our operations.

We have incurred operating losses each fiscal year since 2010 and have an accumulated deficit of \$415.1 million as of December 31, 2020. If and when we achieve profitability depends upon a number of factors, including our ability to develop and market innovative products, accurately estimate inventory needs, contract effectively for manufacturing capacity and maintain sufficient funds to finance our activities. We cannot assure our investors that we will ever achieve annual profitability, or that we will be able to maintain profitability if achieved. If we are not profitable in the future, we may be unable to continue our operations.

A significant amount of our revenue comes from a limited number of customers and distributors and from time to time we may enter into exclusive deals with customers, exposing us to increased credit risk and subjecting our cash flow to the risk that any of our customers or distributors could decrease or cancel its orders.

The display manufacturing market is highly concentrated and we are, and will continue to be, dependent on a limited number of customers and distributors for a substantial portion of our revenue. Sales to our top distributor for the first six months of 2021 represented 28% of revenue. Sales to our top distributor for the years ended December 31, 2020 and 2019 represented 23% and 28% of revenue, respectively. If any of our distributors ceases to do business with us, it may be difficult for us to find adequate replacements, and even if we do, it may take some time. The loss of any of our top distributors could negatively affect our results of operations. Additionally, revenue attributable to our top five end customers represented 76%, 58% and 77% of revenue for the six months ended June 30, 2021 and the years ended December 31, 2020 and 2019, respectively. As of June 30, 2021 and December 31, 2020, we had two accounts that each represented 10% or more of accounts receivable. All of the orders included in our backlog are cancelable. A reduction, delay or cancellation of orders from one or more of our significant customers, or a decision by one or more of our significant customers to select products manufactured by a competitor or to use its own internally-developed semiconductors, would significantly and negatively impact our revenue. Further, the concentration of our accounts receivable with a limited number of customers increases our credit risk. The failure of these customers to pay their balances, or any customer to pay future outstanding balances, would result in an operating expense and reduce our cash flows.

We generally do not have long-term purchase commitments from our customers and if our customers cancel or change their purchase commitments, our revenue and operating results could suffer.

Substantially all of our sales to date have been made on a purchase order basis. We generally do not have long-term commitments with our customers. As a result, our customers may cancel, change or delay product purchase commitments, which could cause our revenue to decline and materially and adversely affect our results of operations.

Our revenue and operating results can fluctuate from period to period, which could cause our share price to decline.

Our revenue and operating results have fluctuated in the past and may fluctuate from period to period in the future due to a variety of factors, many of which are beyond our control. Factors that may contribute to these fluctuations include those described in this "Risk Factors" section of this report, such as the timing, changes in or cancellation of orders by customers, market acceptance of our products and our customers' products and the timing and extent of product development costs. Additionally, our business is subject to seasonality related to the markets we serve and the location of our customers. For example, we have historically experienced higher revenue from the digital projector market in the third quarter of the year, and lower revenue in the first quarter of the year. As a result of these and other factors, the results of any prior quarterly or annual periods should not be relied upon as indications of our future revenue or operating performance. Fluctuations in our revenue and operating results could cause our share price to decline.

If we are unable to generate sufficient cash from operations and are forced to seek additional financing alternatives, or in the event we acquire or make an investment in companies that complement our business, our working capital may be adversely affected and our shareholders may experience dilution or our operations may be impaired.

We may be unable to generate or sustain positive cash flow from operating activities and would then be required to use existing cash and cash equivalents to support our working capital and other cash requirements. Additionally, from time to time, we may evaluate acquisitions of, or investments in, businesses, products or technologies that complement our business. Any transactions, if consummated, may consume a material portion of our working capital or require the issuance of equity securities that may result in dilution to existing shareholders. If additional funds are required to support our working capital requirements, acquisitions or other purposes, we may seek to raise funds through debt and equity financing or from other sources. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our shareholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing shareholders. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operating flexibility, and would also require us to incur interest expense. We can provide no assurance that additional financing will be available at all or, if available, that we would be able to obtain additional financing on terms favorable to us.

We license our intellectual property, which exposes us to risks of infringement or misappropriation, and may cause fluctuations in our operating results.

We have licensed certain intellectual property to third parties and may enter into additional license arrangements in the future. We cannot assure you, however, that others will be interested in licensing our intellectual property on commercially favorable terms or at all. We also cannot ensure that licensees will honor agreed-upon market restrictions, not infringe upon or misappropriate our intellectual property or maintain the confidentiality of our proprietary information.

IP license agreements are complex and earning and recognizing revenue under these agreements depends upon many factors, including completion of milestones, allocation of values to delivered items and customer acceptances. Many of these factors require significant judgments. Also, generating revenue from these arrangements is a lengthy and complex process that may last beyond the period in which efforts begin and, once an agreement is in place, the timing of revenue recognition may depend on events such as customer acceptance of deliverables, achievement of milestones, our ability to track and report progress on contracts, customer commercialization of the licensed technology and other factors, any or all of which may or may not be achieved. The accounting rules associated with recognizing revenue from these transactions are complex and subject to interpretation. Due to these factors, the amount of licensing revenue recognized in any period, if any, and our results of operations, may differ significantly from our expectations.

Finally, because licensing revenue typically has a higher margin compared to product sales, licensing revenue can have a disproportionate impact on our gross profit and results of operations. There is no assurance that we will be able to maintain a consistent level of licensing revenue or mix of licensing revenue and revenue from product sales, which could result in wide fluctuations in our results of operations from period to period, making it difficult to accurately measure the performance of our business.

Our net operating loss carryforwards may be limited or they may expire before utilization.

As of December 31, 2020, we had federal, state and foreign net operating loss carryforwards of approximately \$195.9 million, \$8.6 million, and \$34.3 million respectively, which will begin to expire in 2021. These net operating loss carryforwards may be used to offset future taxable income and thereby reduce our income taxes otherwise payable. However, we cannot assure you that we will have taxable income in the future before all or a portion of these net operating loss carryforwards expire.

Additionally, our federal net operating losses may be limited by Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), which imposes an annual limit on the ability of a corporation that undergoes an "ownership change" to use its net operating loss carryforwards to reduce its tax liability. An ownership change is generally defined as a greater than 50% increase in equity ownership by 5% shareholders in any three-year period. In the event of certain changes in our shareholder base, we may at some time in the future experience an "ownership change" and the use of our federal net operating loss carryforwards may be limited. In addition, the Tax Cuts and Jobs Act (the "TCJA"), limits the deduction for net operating loss carryforwards to 80 percent of taxable income for losses arising in taxable years beginning after December 31, 2020.

We face a number of risks as a result of the concentration of our operations and customers in Asia.

Many of our customers are located in Japan, China, Korea, or Taiwan. Sales outside the U.S. accounted for approximately 95%, 93% and 95% of revenue for the six months ended June 30, 2021 and the years ended December 31, 2020 and 2019, respectively. We anticipate that sales outside the U.S. will continue to account for a substantial portion of our revenue in future periods. In addition, customers who incorporate our products into their products sell a substantial portion of their products outside of the U.S. All of our products are also manufactured outside of the U.S. and most of our current manufacturers are located in Taiwan. Furthermore, most of our employees are located in China, Japan and Taiwan. Our Asian operations require significant management attention and resources, and we are subject to many risks associated with operations in Asia, including, but not limited to:

- outbreaks of health epidemics in China or other parts of Asia, including COVID-19;
- difficulties in managing international distributors and manufacturers due to varying time zones, languages and business customs;
- compliance with U.S. laws affecting operations outside of the U.S., such as the Foreign Corrupt Practices Act;
- reduced or limited protection of our IP, particularly in software, which is more prone to design piracy;
- difficulties in collecting outstanding accounts receivable balances;
- changes in tax rates, tax laws and the interpretation of those laws;
- difficulties regarding timing and availability of export and import licenses;
- ensuring that we obtain complete and accurate information from our Asian operations to make proper disclosures in the United States;
- political and economic instability;
- difficulties in maintaining sales representatives outside of the U.S. that are knowledgeable about our industry and products;
- changes in the regulatory environment in China, Japan, Taiwan and Korea that may significantly impact purchases of our products by our customers or our customers' sales of their own products;
- imposition of new tariffs, quotas, trade barriers and similar trade restrictions on our sales;
- varying employment and labor laws; and
- greater vulnerability to infrastructure and labor disruptions than in established markets.

Any of these factors could require a disproportionate share of management's attention, result in increased costs or decreased revenues, and could materially affect our product sales, financial condition and results of operations.

Our operations in Asia expose us to heightened risks due to natural disasters.

The risk of natural disasters in the Pacific Rim region is significant. Natural disasters in countries where our manufacturers or customers are located could result in disruption of our manufacturers' and customers' operations, resulting in significant delays in shipment of, or significant reductions in orders for, our products. There can be no assurance that we can locate additional manufacturing capacity or markets on favorable terms, or find new customers, in a timely manner, if at all. Natural disasters in this region could also result in:

- reduced end user demand due to the economic impact of any natural disaster;
- a disruption to the global supply chain for products manufactured in areas affected by natural disasters that are included in products purchased either by us or by our customers;
- an increase in the cost of products that we purchase due to reduced supply; and
- other unforeseen impacts as a result of the uncertainty resulting from a natural disaster.

We face additional risks associated with our operations in China and our results of operations and financial position may be harmed by changes in China's political, economic or social conditions or changes in U.S.-China relations.

We have, and expect to continue to have, significant operations in China. The economy of China differs from the economies of many countries in important respects such as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, self-sufficiency, rate of inflation, foreign currency flows and balance of payments position, among others. There can be no assurance that China's economic policies will be consistent or effective and our results of operations and financial position may be harmed by changes in China's political, economic or social conditions. Additionally, the political and economic relationship between the U.S. and China is uncertain, and any changes in policy as a result may adversely affect our business. For example, if China were to take action against the United States in response to actual or perceived political or economic threats or changes in policy, such as the detainment of Americans traveling on business, our operations could be adversely affected.

Additionally, our Chinese subsidiary is considered a foreign-invested enterprise and is subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to foreign-invested enterprises. For example, China's government imposes control over the convertibility of RMB into foreign currencies, which can cause difficulties converting cash held in RMB to other currencies. While the overall effect of legislation over the past two decades has significantly enhanced the protections afforded to various foreign investments in China, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. Because these laws and regulations are relatively new, and published court decisions are limited and nonbinding in nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, China's legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the violation occurs. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Further, since Chinese administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings. These uncertainties may also impede our ability to enforce the contracts entered into by our Chinese subsidiary and could materially and adversely affect our business and results of operations.

Our international operations expose us to risks resulting from the fluctuations of foreign currencies.

We are exposed to risks resulting from the fluctuations of foreign currencies, primarily those of Japan, Taiwan, Korea and China. Additionally, with the acquisition of ViXS, we are exposed to risks resulting from fluctuations in the Canadian dollar. We sell our products to OEMs that incorporate our products into other products that they sell outside of the U.S. While sales of our products to OEMs are denominated in U.S. dollars, the products sold by OEMs are denominated in foreign currencies. Accordingly, any strengthening of the U.S. dollar against these foreign currencies will increase the foreign currency price equivalent of our products, which could lead to a change in the competitive nature of these products in the marketplace. This, in turn, could lead to a reduction in revenue.

In addition, a portion of our operating expenses, such as employee salaries and foreign income taxes, are denominated in foreign currencies. Accordingly, our operating results are affected by changes in the exchange rate between the U.S. dollar and those currencies. Any future strengthening of those currencies against the U.S. dollar will negatively impact our operating results by increasing our operating expenses as measured in U.S. dollars.

We may engage in financial hedging techniques in the future as part of a strategy to address potential foreign currency exchange rate fluctuations. These hedging techniques, however, may not be successful at reducing our exposure to foreign currency exchange rate fluctuations and may increase costs and administrative complexity.

Failure to comply with anti-bribery, anti-corruption, and anti-money laundering laws could subject us to penalties and other adverse consequences.

We are subject to the Foreign Corrupt Practices Act ("FCPA") and other anti-corruption, anti-bribery and anti-money laundering laws in various jurisdictions. From time to time, we may leverage third parties to help conduct our businesses abroad. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, channel partners, and agents, even if we do not explicitly authorize such activities. While we have policies and procedures to address compliance with such laws, we cannot assure you that all of our employees and agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. Any violation of the FCPA or other applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, all of which may have an adverse effect on our reputation, our business, results of operations and financial condition.

Our reported financial results may be materially and adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board ("FASB"), the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could materially and adversely affect the transactions completed before the announcement of a change. Additionally, the adoption of new or revised accounting principles may require that we make significant changes to our systems, processes and controls. In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. ASU 2016-02 became effective for us on January 1, 2019. Upon adoption, we recognized additional operating lease liabilities of \$6,847 based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. We also recognized ROU assets of \$6,224, which represents the operating lease liability adjusted for accrued rent and impairment of ROU assets.

If we are unable to maintain effective disclosure controls and internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, and the market price of our common stock may be materially and adversely affected.

In the second quarter of 2019, we identified a material weakness in our internal controls over financial reporting related to the review of aged liabilities for possible extinguishment due to the expiration of the statute of limitation, which was remediated as of December 31, 2019. As a result, investors may have lost confidence in the accuracy and completeness of our financial reports and effectiveness which may cause the price of our common stock to decline. Additionally, if any new internal control procedures which may be adopted or our existing internal control procedures are deemed inadequate, or if we identify additional material weaknesses in our disclosure controls or internal controls over financial reporting in the future, we will be unable to assert that our internal controls are effective. If we are unable to do so, or if our auditors are unable to attest to the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline.

As we have limited insurance coverage, any incurred liability resulting from uncovered claims could adversely affect our financial condition and results of operations.

Our insurance policies may not be adequate to fully offset losses from covered incidents, and we do not have coverage for certain losses. For example, we do not have earthquake insurance related to our Asian operations because adequate coverage is not offered at economically justifiable rates. If our insurance coverage is inadequate to protect us against catastrophic losses, any uncovered losses could adversely affect our financial condition and results of operations.

Our dependence on selling to distributors and integrators increases the complexity of managing our supply chain and may result in excess inventory or inventory shortages.

Selling to distributors and OEMs that build display devices based on specifications provided by branded suppliers, also referred to as integrators, reduces our ability to forecast sales accurately and increases the complexity of our business. Our sales are generally made on the basis of customer purchase orders rather than long-term purchase commitments. Our distributors, integrators and customers may cancel or defer purchase orders at any time, but we must order wafer inventory from our contract manufacturers three to four months in advance.

The estimates we use for our advance orders from contract manufacturers are based, in part, on reports of inventory levels and production forecasts from our distributors and integrators, which act as intermediaries between us and the companies using our products. This process requires us to make numerous assumptions concerning demand and to rely on the accuracy of the reports and forecasts of our distributors and integrators, each of which may introduce error into our estimates of inventory requirements. Our failure to manage this challenge could result in excess inventory or inventory shortages that could materially impact our operating results or limit the ability of companies using our semiconductors to deliver their products. If we overestimate demand for our products, it could lead to significant charges for obsolete inventory. On the other hand, if we underestimate demand, we could forego revenue opportunities, lose market share and damage our customer relationships.

We may be unable to successfully manage any future growth, including the integration of any acquisition or equity investment, which could disrupt our business and severely harm our financial condition.

If we fail to effectively manage any future internal growth, our operating expenses may increase more rapidly than our revenue, adversely affecting our financial condition and results of operations. To manage any future growth effectively in a rapidly evolving market, we must be able to maintain and improve our operational and financial systems, train and manage our employee base and attract and retain qualified personnel with relevant experience. We could spend substantial amounts of time and money in connection with expansion efforts for which we may not realize any profit. Our systems, procedures, controls or financial resources may not be adequate to support our operations and we may not be able to grow quickly enough to exploit potential market opportunities. In addition, we may not be able to successfully integrate the businesses, products, technologies or personnel of any entity that we might acquire in the future, or we may fail to realize the anticipated benefits of any such acquisition. The successful integration of any acquired business as well as the retention of personnel may require significant attention from our management and could divert resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not achieve the anticipated benefits we expect due to a number of factors including: unanticipated costs or liabilities associated with such acquisition, including in the case of acquisitions we may make outside of the United States, difficulty in operating in foreign countries or complying with foreign regulatory requirements, incurrence of acquisition-related costs, harm to our relationships with existing customers as a result of such acquisition, harm to our brand and reputation, the loss of key employees in the acquired businesses, use of resources that are needed in other parts of our business, and use of substantial portions of our available cash to consummate any such acquisition. Any failure to successfully integrate any entity we may acquire or any failure to achieve the anticipated benefits of any such acquisition could disrupt our business and seriously harm our financial condition.

Continued compliance with regulatory and accounting requirements will be challenging and will require significant resources.

We spend a significant amount of management time and external resources to comply with changing laws, regulations and standards relating to corporate governance and public disclosure, including evolving SEC rules and regulations, Nasdaq Global Market rules, the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Sarbanes-Oxley Act of 2002, which requires management's annual review and evaluation of internal control over financial reporting. Failure to comply with these laws and rules could lead to investigation by regulatory authorities, de-listing from the Nasdaq Global Market, or penalties imposed on us.

Regulations related to conflict minerals may adversely impact our business.

The SEC has adopted disclosure and reporting rules intended to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo ("DRC") and adjoining countries. These rules require us to conduct a reasonable inquiry to determine the origin of certain materials used in our products and disclose whether our products use any materials containing conflict minerals originating from the DRC and adjoining countries. Since we do not own or operate a semiconductor fabrication facility and do not manufacture our products internally, we are dependent on the information provided by third-party foundries and production facilities regarding the materials used and the supply chains for the materials. Further, there are costs associated with complying with these rules, including costs incurred to conduct inquiries to determine the sources of any materials containing conflict minerals used in our products, to fulfill our reporting requirements and to develop and implement potential changes to products, processes or sources of supply if it is determined that our products contain or use any conflict minerals from the DRC or adjoining countries. The implementation of these rules could also affect the sourcing, supply and pricing of materials used in our products. For example, there may only be a limited number of suppliers offering "conflict free" materials and we cannot be sure that we will be able to obtain necessary "conflict free" materials from such suppliers in sufficient quantities or at reasonable prices. In addition, we may face reputational challenges if we determine that any of our products contain minerals that are not conflict free or if we are unable to sufficiently verify the origins for all materials containing conflict minerals used in our products through the procedures we may implement.

Our effective income tax rate is subject to unanticipated changes in, or different interpretations of, tax rules and regulations, and forecasting our effective income tax rate is complex and subject to uncertainty.

As a global company, we are subject to taxation by a number of taxing authorities and as such, our tax rates vary among the jurisdictions in which we operate. Unanticipated changes in our tax rates could affect our future results of operations. Our effective tax rates could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in tax laws or the interpretation of tax laws either in the U.S. or abroad, or by changes in the valuation of our deferred tax assets and liabilities. The ultimate outcomes of any future tax audits are uncertain, and we can give no assurance as to whether an adverse result from one or more of them would have a material effect on our operating results and financial position.

The computation of income tax expense is complex as it is based on the laws of numerous tax jurisdictions and requires significant judgment on the application of complicated rules governing accounting for tax provisions under U.S. generally accepted accounting principles. Income tax expense for interim quarters is based on our forecasted tax rate for the year, which includes forward looking financial projections, including the expectations of profit and loss by jurisdiction, and contains numerous assumptions. For these reasons, our tax rate may be materially different than our forecast.

We rely upon certain critical information systems for the operation of our business, and the failure of any critical information system may result in serious harm to our business.

We maintain and rely upon certain critical information systems for the effective operation of our business. These information systems include telecommunications, the Internet, our corporate intranet, various computer hardware and software applications, network communications and e-mail. These information systems are subject to attacks, failures and access denials from a number of potential sources including viruses, destructive or inadequate code, power failures, and physical damage to computers, communication lines and networking equipment. To the extent that these information systems are under our control, we have implemented security procedures, such as virus protection software and firewall monitoring, to address the outlined risks. Security procedures for information systems cannot be guaranteed to be failsafe and our inability to use or access these information systems at critical times could compromise the timely and efficient operation of our business. Additionally, any compromise of our information security could result in the unauthorized publication of our confidential business or proprietary information, cause an interruption in our operations, result in the unauthorized release of customer or employee data, result in a violation of privacy or other laws, or expose us to a risk of litigation or damage our reputation, any or all of which could harm our business and operating results.

Environmental laws and regulations may cause us to incur significant expenditures to comply with applicable laws and regulations, and we may be assessed considerable penalties for noncompliance.

We are subject to numerous environmental laws and regulations. Compliance with current or future environmental laws and regulations could require us to incur substantial expenses which could harm our business, financial condition and results of operations. We have worked, and will continue to work, with our suppliers and customers to ensure that our products are compliant with enacted laws and regulations. Failure by us or our contract manufacturers to comply with such legislation could result in customers refusing to purchase our products and could subject us to significant monetary penalties in connection with a violation, either of which would have a material adverse effect on our business, financial condition and results of operations.

Company Risks Related to the Semiconductor Industry and Our Markets

Dependence on a limited number of sole-source, third-party manufacturers for our products exposes us to possible shortages based on low manufacturing yield, errors in manufacturing, uncontrollable lead-times for manufacturing, capacity allocation, price increases with little notice, volatile inventory levels and delays in product delivery, any of which could result in delays in satisfying customer demand, increased costs and loss of revenue.

We do not own or operate a semiconductor fabrication facility and do not have the resources to manufacture our products internally. We rely on a limited number of foundries and assembly and test vendors to produce all of our wafers and for completion of finished products. Our wafers are not fabricated at more than one foundry at any given time and our wafers typically are designed to be fabricated in a specific process at only one foundry. Sole sourcing each product increases our dependence on our suppliers. We have limited control over delivery schedules, quality assurance, manufacturing yields, potential errors in manufacturing and production costs. We do not have long-term supply contracts with our third-party manufacturers, so they are not obligated to supply us with products for any specific period of time, quantity or price, except as may be provided in a particular purchase order. Our suppliers can increase the prices of the products we purchase from them with little notice, which may cause us to increase the prices to our customers and harm our competitiveness. Because our requirements represent only a small portion of the total production capacity of our contract manufacturers, they could reallocate capacity to other customers during periods of high demand for our products, as they have done in the past. We expect this may occur again in the future.

Establishing a relationship with a new contract manufacturer in the event of delays or increased prices would be costly and burdensome. The lead time to make such a change would be at least nine months, and the estimated time for us to adapt a product's design to a particular contract manufacturer's process is at least four months. Additionally, we have chosen, and may continue to choose new foundries to manufacture our wafers which in turn, may require us to modify our design methodology flow for the process technology and intellectual property cores of the new foundry. If we have to qualify a new foundry or packaging, assembly and testing supplier for any of our products or if we are unable to obtain our products from our contract manufacturers on schedule, at costs that are acceptable to us, or at all, we could incur significant delays in shipping products, our ability to satisfy customer demand could be harmed, our revenue from the sale of products may be lost or delayed and our customer relationships and ability to obtain future design wins could be damaged.

Our highly integrated products and high-speed mixed signal products are difficult to manufacture without defects and the existence of defects could result in increased costs, delays in the availability of our products, reduced sales of products or claims against us.

The manufacture of semiconductors is a complex process and it is often difficult for semiconductor foundries to produce semiconductors free of defects. Because many of our products are more highly integrated than other semiconductors and incorporate mixed signal analog and digital signal processing, multi-chip modules and embedded memory technology, they are even more difficult to produce without defects. Defective products can be caused by design or manufacturing difficulties. Identifying quality problems can be performed only by analyzing and testing our semiconductors in a system after they have been manufactured. The difficulty in identifying defects is compounded because the process technology is unique to each of the multiple semiconductor foundries we contract with to manufacture our products. Despite testing by both our customers and us, errors or performance problems may be found in existing or new semiconductors. Failure to achieve defect-free products may result in increased costs and delays in the availability of our products. Defects may also divert the attention of our engineering personnel from our product development efforts to find and correct the issue, which would delay our product development efforts.

Additionally, customers could seek damages from us for their losses, and shipments of defective products may harm our reputation with our customers. If a product liability claim is brought against us, the cost of defending the claim could be significant and would divert the efforts of our technical and management personnel and harm our business. Further, our business liability insurance may be inadequate or future coverage may be unavailable on acceptable terms, which could adversely impact our financial results.

We experience a small number of semiconductor field failures infrequently in certain customer applications that required us to institute additional testing. As a result of these field failures, we have incurred warranty costs due to customers returning potentially affected products and have experienced reductions in revenues due to delays in production. Our customers have also experienced delays in receiving product shipments from us that resulted in the loss of revenue and profits. Additionally, shipments of defective products could cause us to lose customers or to incur significant replacement costs, either of which would harm our reputation and our business. Any defects, errors or bugs could also interrupt or delay sales of our new products to our customers, which would adversely affect our financial results.

The development of new products is extremely complex and we may be unable to develop our new products in a timely manner, which could result in a failure to obtain new design wins and/or maintain our current revenue levels.

In addition to the inherent difficulty of designing complex integrated circuits, product development delays may result from:

- difficulties in hiring and retaining necessary technical personnel;
- difficulties in reallocating engineering resources and overcoming resource limitations;
- difficulties with contract manufacturers;
- changes to product specifications and customer requirements;
- changes to market or competitive product requirements; and
- unanticipated engineering complexities.

If we are not successful in the timely development of new products, we may fail to obtain new design wins and our financial results will be adversely affected.

Intense competition in our markets may reduce sales of our products, reduce our market share, decrease our gross profit and result in large losses.

We compete with specialized and diversified electronics and semiconductor companies that offer display processors or scaling components including: Actions Microelectronics Co., Ltd., ARM Holdings PLC, Dolby Laboratories, Inc., Egis Technology Inc., Hisilicon Technologies Co., Ltd., i-Chips Technology Inc., Lattice Semiconductor Corporation, MediaTek Inc., Novatek Microelectronics Corp., NVIDIA Corporation, Qualcomm Incorporated, Realtek Semiconductor Corp., Renesas Electronics America Inc., Socionext Inc., Solomon Systech (International) Ltd., STMicroelectronics N.V., Sunplus Technology Co., Ltd., Synaptics Incorporated, Texas Instruments Incorporated, Unisoc Communications, Inc., and other companies. Potential and current competitors may include diversified semiconductor manufacturers and the semiconductor divisions or affiliates of some of our customers, including: Apple Inc., Broadcom Inc., LG Electronics, Inc., MegaChips Corporation, Mitsubishi Digital Electronics America, Inc., NEC Corporation, Panasonic Corporation, Samsung Electronics Co., Ltd., Socionext Inc., ON Semiconductor Corporation, Seiko Epson Corporation, Sharp Electronics Corporation, Sony Corporation, and Toshiba America, Inc. In addition, start-up companies may seek to compete in our markets.

Many of our competitors have longer operating histories and greater resources to support development and marketing efforts than we do. Some of our competitors operate their own fabrication facilities. These competitors may be able to react more quickly and devote more resources to efforts that compete directly with our own. Additionally, any consolidation in the semiconductor industry may impact our competitive position. Our current or potential customers have developed, and may continue to develop, their own proprietary technologies and become our competitors. Increased competition from both competitors and our customers' internal development efforts 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. For example, frame rate conversion technology similar to that used in our line of MotionEngine® advanced video co-processors continues to be integrated into the SoC and display timing controller products of our competitors. We cannot assure you that we can compete successfully against current or potential competitors.

If we are not able to respond to the rapid technological changes and evolving industry standards in the markets in which we compete, or seek to compete, our products may become less desirable or obsolete.

The markets in which we compete or seek to compete are subject to rapid technological change and miniaturization capabilities, frequent new product introductions, changing customer requirements for new products and features and evolving industry standards. The introduction of new technologies and emergence of new industry standards could render our products less desirable or obsolete, which could harm our business and significantly decrease our revenue. Examples of changing industry standards include the growing use of broadband to deliver video content, increased display resolution and size, faster screen refresh rates, video capability such as High Dynamic Range, the proliferation of new display devices and the drive to network display devices together. Our failure to predict market needs accurately or to timely develop new competitively priced products or product enhancements that incorporate new industry standards and technologies, including integrated circuits with increasing levels of integration and new features, using smaller geometry process technologies, may harm market acceptance and sales of our products.

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 these protocols and standards, consumers will return, or not purchase these products and the markets for our customers' products could be significantly reduced. Additionally, if the technology used by our customers becomes less competitive due to cost, customer preferences or other factors relative to alternative technologies, sales of our products could decline.

We use a customer-owned tooling process for manufacturing most of our products, which exposes us to the possibility of poor yields and unacceptably high product costs.

We build most of our products on a customer-owned tooling basis, whereby we directly contract the manufacture of our products, including wafer production, assembly and testing. As a result, we are subject to increased risks arising from wafer manufacturing yields and risks associated with coordination of the manufacturing, assembly and testing process. Poor product yields result in higher product costs, which could make our products less competitive if we increase our prices to compensate for our higher costs or could result in lower gross profit margins if we do not increase our prices.

We depend on manufacturers of our semiconductor products not only to respond to changes in technology and industry standards but also to continue the manufacturing processes on which we rely.

To respond effectively to changes in technology and industry standards, we depend on our contracted foundries to implement advanced semiconductor technologies and our operations could be adversely affected if those technologies are unavailable, delayed or inefficiently implemented. In order to increase performance and functionality and reduce the size of our products, we are continuously developing new products using advanced technologies that further miniaturize semiconductors and we are dependent on our foundries to develop and provide access to the advanced processes that enable such miniaturization. We cannot be certain that future advanced manufacturing processes will be implemented without difficulties, delays or increased expenses. Our business, financial condition and results of operations could be materially adversely affected if advanced manufacturing processes are unavailable to us, substantially delayed or inefficiently implemented.

Creating the capacity for new technological changes may cause manufacturers to discontinue older manufacturing processes in favor of newer ones. We must then either retire the affected part or port (develop) a new version of the part that can be manufactured with a newer process technology. In the event that a manufacturing process is discontinued, our current suppliers may be unwilling or unable to manufacture our current products. We may not be able to place last time buy orders for the old technology or find alternate manufacturers of our products to allow us to continue to produce products with the older technology while we expend the significant costs for research and development and time to migrate to new, more advanced processes.

Shortages of materials used in the manufacturing of our products and other key components of our customers' products may increase our costs, impair our ability to ship our products on time and delay our ability to sell our products.

From time to time, shortages of components and materials that are critical to the manufacture of our products and our customers' products may occur. Such critical components and materials include semiconductor wafers and packages, double data rate memory die, display components, analog-to-digital converters, digital receivers, video decoders and voltage regulators. If material shortages occur, we may incur additional costs or be unable to ship our products to our customers in a timely fashion, both of which could harm our business and adversely affect our results of operations.

Because of our long product development process and sales cycles, we may incur substantial costs before we earn associated revenue and ultimately may not sell as many units of our products as we originally anticipated.

We develop products based on anticipated market and customer requirements and incur substantial product development expenditures, which can include the payment of large up-front, third-party license fees and royalties, prior to generating the associated revenue. Our work under these projects is technically challenging and places considerable demands on our limited resources, particularly on our most senior engineering talent. Additionally, the transition to smaller geometry process technologies continues to significantly increase the cost and complexity of new product development, particularly with regards to tooling, software tools, third party IP and engineering resources. Because the development of our products incorporates not only our complex and evolving technology, but also 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 system can take nine months or more. It can take an additional nine months or longer before a customer commences volume shipments of systems that incorporate our products, if at all. Because of the lengthy development and sales cycles, we will experience delays between the time we incur expenditures for research and development, sales and marketing and inventory and the time we generate revenue, if any, from these expenditures.

Furthermore, we have entered into and may in the future enter into, co-development agreements that do not guarantee future sales volumes and limit our ability to sell the developed products to other customers. The exclusive nature of these development agreements increases our dependence on individual customers, particularly since we are limited in the number of products we are able to develop at any one time.

If actual sales volumes for a particular product are substantially less than originally anticipated, we may experience large write-offs of capitalized license fees, software development tools, product masks, inventories or other capitalized or deferred product-related costs, any of which would negatively affect our operating results.

Our developed software may be incompatible with industry standards and challenging and costly to implement, which could slow product development or cause us to lose customers and design wins.

We provide our customers with software development tools and with software that provides basic functionality for our integrated circuits and enables enhanced connectivity of our customers' products. Software development is a complex process and we are dependent on software development languages and operating systems from vendors that may limit our ability to design software in a timely manner. Also, as software tools and interfaces change rapidly, new software languages introduced to the market may be incompatible with our existing systems and tools, requiring significant engineering efforts to migrate our existing systems in order to be compatible with those new languages. Software development disruptions could slow our product development or cause us to lose customers and design wins. The integration of software with our products 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 increases 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.

The competitiveness and viability of our products could be harmed if necessary licenses of third-party technology are not available to us on terms that are acceptable to us or at all.

We license technology from independent 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 on terms that are acceptable to us or at all. In addition, in the event of a change in control of one of our licensors, it may become difficult to maintain access to its licensed technology. If we are unable to obtain or maintain any third-party license required to develop new products and product enhancements, we may have to obtain substitute technology with lower quality or performance standards, or at greater cost, either of which could seriously harm the competitiveness of our products.

Our limited ability to protect our IP and proprietary rights could harm our competitive position by allowing our competitors to access our proprietary technology and to introduce similar products.

Our ability to compete effectively with other companies depends, in part, on our ability to maintain the proprietary nature of our technology, including our semiconductor designs and software code. We provide the computer programming code for our software to customers in connection with their product development efforts, thereby increasing the risk that customers will misappropriate our proprietary software. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to help protect our proprietary technologies. As of June 30, 2021, we held 335 patents and had 9 patent applications pending for protection of our significant technologies. Competitors in both the U.S. and foreign countries, many of whom have substantially greater resources than we do, may apply for and obtain patents that will prevent, limit or interfere with our ability to make and sell our products, or they may develop similar technology independently or design around our patents. Effective patent, copyright, trademark and trade secret protection may be unavailable or limited in foreign countries and, thus, make the possibility of piracy of our technology and products more likely in these countries.

We cannot assure you that the degree of protection offered by patent 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 any claims allowed under issued patents will be sufficiently broad to protect our technology. We may incur significant costs to stop others from infringing our patents. In addition, it is possible that existing or future patents may be invalidated, diluted, circumvented, challenged or licensed to others.

Others may bring infringement or indemnification actions against us that could be time-consuming and expensive to defend.

We may become subject to claims involving patents or other intellectual property rights. In recent years, there has been significant litigation in the U.S. and in other jurisdictions involving patents and other intellectual property rights. This litigation is particularly prevalent in the semiconductor industry, in which a number of companies aggressively use their patent portfolios to bring infringement claims. In recent years, there has been an increase in the filing of so-called "nuisance suits," alleging infringement of intellectual property rights. These claims may be asserted initially or as counterclaims in response to claims made by a company alleging infringement of intellectual property rights. These suits pressure defendants into entering settlement arrangements to quickly dispose of such suits, regardless of merit. We may also face claims brought by companies that are organized solely to hold and enforce patents. In addition, we may be required to indemnify our customers against IP claims related to their usage of our products as certain of our agreements include indemnification provisions from third parties relating to our intellectual property.

IP claims could subject us to significant liability for damages and invalidate our proprietary rights. Responding to such claims, regardless of their merit, can be time-consuming, result in costly litigation, divert management's attention and resources and cause us to incur significant expenses. As each claim is evaluated, we may consider the desirability of entering into settlement or licensing agreements. No assurance can be given that settlements will occur or that licenses can be obtained on acceptable terms or that litigation will not occur. In the event there is a temporary or permanent injunction entered prohibiting us from marketing or selling certain of our products, or a successful claim of infringement against us requiring us to pay damages or royalties to a third-party and we fail to develop or license a substitute technology, our business, results of operations or financial condition could be materially adversely affected. Any IP litigation or claims also could force us to do one or more of the following:

- stop selling products using technology that contains the allegedly infringing IP;
- attempt to obtain a license to the relevant IP, which may not be available on terms that are acceptable to us or at all;
- attempt to redesign those products that contain the allegedly infringing IP; or
- pay damages for past infringement claims that are determined to be valid or which are arrived at in settlement of such litigation or threatened litigation.

If we are forced to take any of the foregoing actions, we may incur significant additional costs or 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 otherwise adversely affect our results of operations.

Our products are characterized by average selling prices that can decline over relatively short periods of time, which will negatively affect our financial results unless we are able to reduce our product costs or introduce new products with higher average selling prices.

Average selling prices for our products can decline over relatively short periods of time, while many of our product costs are relatively fixed. When our average selling prices decline, our gross profit declines unless we are able to sell more units or reduce the cost to manufacture our products. We have experienced declines in our average selling prices and expect that we will continue to experience them in the future, although we cannot predict when they may occur or how severe they will be. Our financial results will suffer if we are unable to offset any reductions in our average selling prices by increasing our sales volumes, reducing our costs, adding new features to our existing products or developing new or enhanced products in a timely manner with higher selling prices or gross profits.

The cyclical nature of the semiconductor industry may lead to significant variances in the demand for our products and could harm our operations.

In the past, the semiconductor industry has been characterized by significant downturns and wide fluctuations in supply and demand. Also, the industry has experienced significant fluctuations in anticipation of changes in general economic conditions, including economic conditions in Asia, Europe and North America. The cyclical nature of the semiconductor industry has also led to significant variances in product demand and production capacity. We have experienced, and may continue to experience, periodic fluctuations in our financial results because of changes in industry-wide conditions.

General Risks

The price of our common stock has and may continue to fluctuate substantially.

Our stock price and the stock prices of technology companies similar to Pixelworks have been highly volatile. The price of our common stock may decline and the value of our shareholders' investment may be reduced regardless of our performance.

The daily trading volume of our common stock has historically been relatively low, although, in the three most recent years, trading volume increased compared to historical levels. As a result of the historically low volume, our shareholders may be unable to sell significant quantities of common stock in the public trading markets without a significant reduction in the price of our common shares. Additionally, market fluctuations, as well as general economic and political conditions, including recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our common stock. Other factors that could negatively impact our stock price include:

- actual or anticipated fluctuations in our operating results;
- changes in or failure to meet expectations as to our future financial performance;
- changes in or failure to meet financial estimates of securities analysts;
- announcements by us or our competitors of technological innovations, design wins, contracts, standards, acquisitions or divestitures;
- the operating and stock price performance of other comparable companies;
- issuances or proposed issuances of equity, debt or other securities by us, or sales of securities by our security holders; and
- changes in market valuations of other technology companies.

Any inability or perceived inability of investors to realize a gain on an investment in our common stock could have an adverse effect on our business, financial condition and results of operations by potentially limiting our ability to retain our customers, to attract and retain qualified employees and to raise capital. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

The interest of our current or potential significant shareholders may conflict with other shareholders and they may attempt to effect changes or acquire control, which could adversely affect our results of operations and financial condition.

Our shareholders may from time to time engage in proxy solicitations, advance shareholder proposals, acquire control or otherwise attempt to effect changes, including by directly voting their shares on shareholder proposals. Campaigns by shareholders to effect changes at publicly traded companies are sometimes led by investors seeking to increase short-term shareholder value through actions such as financial restructuring, increased debt, special dividends, stock repurchases or sales of assets or the entire company. Responding to proxy contests and other actions by activist shareholders can be costly and time-consuming, disrupting our operations and diverting the attention of our Board of Directors and senior management from the pursuit of business strategies. Additionally, uncertainty over our direction and leadership may negatively impact our relationship with our customers and make it more difficult to attract and retain qualified personnel and business partners. As a result, shareholder campaigns could adversely affect our results of operations and financial condition.

Future sales of our equity could result in significant dilution to our existing shareholders and depress the market price of our common stock.

It is likely that we will need to seek additional capital in the future and from time to time. If this financing is obtained through the issuance of equity securities, debt convertible into equity securities, options or warrants to acquire equity securities or similar instruments or securities, our existing shareholders will experience dilution in their ownership percentage upon the issuance, conversion or exercise of such securities and such dilution could be significant. For example, on December 7, 2020, we completed a private placement of 724,288 shares of common stock to a certain accredited investor at a purchase price of \$2.071 per share. On December 15, 2020, we completed a private placement of 2,475,712 shares of common stock to a certain accredited investor at a purchase price of \$2.071. The issuance and sale of the shares in the private placement had a dilutive impact on our existing stockholders. Additionally, on December 14, 2020, we completed the sale of 4,900,000 shares of common stock in an underwritten registered offering. On December 16, 2020, an additional 735,000 shares were issued pursuant to the 30-day over-allotment option exercised by the underwriter. With the over-allotment shares, a total of 5,635,000 shares of common stock were sold in the offering at a price to the public of \$2.45 per share. Additionally, pursuant to our “at the market” equity offering program, we may sell shares of our common stock having aggregate sales proceeds of up to \$25 million from time to time through Cowen and Company, LLC, as our agent. Through June 30, 2021, we sold an aggregate of 1,747,466 shares of our common stock under this at the market offering. The issuance and sale of additional shares of our common stock pursuant to our “at the market” equity offering program will have a dilutive impact on our existing stockholders. Additionally, any new equity securities issued by us could have rights, preferences or privileges senior to those of our common stock. Further, the issuance and sale of, or the perception that we may issue and sell, additional shares of common stock pursuant to our “at the market” equity offering program or an additional private placement could have the effect of depressing the market price of our common stock or increasing the volatility thereof.

Any issuance by us or sales of our securities by our security holders, including by any of our affiliates, or the perception that such issuances or sales could occur, could negatively impact the market price of our securities. For example, a number of shareholders own significant blocks of our common stock. If one or more of these large shareholders were to sell large portions of their holdings in a relatively short time, for liquidity or other reasons, the prevailing market price of our common stock could be negatively affected. This could result in further potential dilution to our existing shareholders and the impairment of our ability to raise capital through the sale of equity, debt or other securities.

We may be unable to maintain compliance with Nasdaq Marketplace Rules which could cause our common stock to be delisted from the Nasdaq Global Market. This could result in the lack of a market for our common stock, cause a decrease in the value of our common stock, and adversely affect our business, financial condition and results of operations.

Under the Nasdaq Marketplace Rules our common stock must maintain a minimum price of \$1.00 per share for continued inclusion on the Nasdaq Global Market. Our stock price was previously below \$1.00 on May 6, 2009 and was \$1.22 on February 12, 2016 and we cannot guarantee that our stock price will remain at or above \$1.00 per share. If the price again drops below \$1.00 per share, our stock could become subject to delisting, and we may seek shareholder approval for a reverse stock split, which in turn could produce adverse effects and may not result in a long-term or permanent increase in the price of our common stock. Further, for continued listing on the Nasdaq Global Market we must have at least 400 total shareholders.

In addition to the minimum \$1.00 per share and 400 total shareholders requirements, the Nasdaq Global Market has other continued listing requirements, and we must meet all of the criteria under at least one of the following three standards: (i) a minimum of \$50.0 million in total asset value and \$50.0 million in revenues in the latest fiscal year or in two of the last three fiscal years, at least 1.1 million publicly held shares and at least \$15 million in market value of publicly held shares; (ii) a minimum of \$50.0 million in market value of listed securities, at least 1.1 million publicly held shares and at least \$15.0 million in market value of publicly held shares; or (iii) a minimum of \$10.0 million in shareholders' equity, at least 750,000 publicly held shares and at least \$5 million in market value of publicly held shares. As of June 30, 2021, we were in compliance with these listing requirements. However, as recently as June 30, 2017, our total asset value was less than \$50.0 million. In addition, as recently as during the first quarter of 2016, the aggregate market value of our listed securities was below \$50.0 million. Our stock price is volatile and we believe that we continue to remain susceptible to the market value of our listed securities and/or the market value of our publicly held securities falling below \$50.0 million and \$15.0 million, respectively. Accordingly, we cannot assure you that we will be able to continue to comply with Nasdaq Global Market's listing requirements. Should we be unable to remain in compliance with these requirements, our stock could become subject to delisting.

If our common stock is delisted, trading of the stock will most likely take place on an over-the-counter market established for unlisted securities. An investor is likely to find it less convenient to sell, or to obtain accurate quotations in seeking to buy, our common stock on an over-the-counter market, and many investors may not buy or sell our common stock due to difficulty in accessing over-the-counter markets, or due to policies preventing them from trading in securities not listed on a national exchange or other reasons. For these reasons and others, delisting would adversely affect the liquidity, trading volume and price of our common stock, causing the value of an investment in us to decrease and having an adverse effect on our business, financial condition and results of operations by limiting our ability to attract and retain qualified executives and employees and limiting our ability to raise capital.

The anti-takeover provisions of Oregon law and in our articles of incorporation could adversely affect the rights of the holders of our common stock, including by preventing a sale or takeover of us at a price or prices favorable to the holders of our common stock.

Provisions of our articles of incorporation and bylaws and provisions of Oregon law may have the effect of delaying or preventing a merger or acquisition of us, making a merger or acquisition of us less desirable to a potential acquirer or preventing a change in our management, even if our shareholders consider the merger, acquisition or change in management favorable or if doing so would benefit our shareholders. In addition, these provisions could limit the price that investors would be willing to pay in the future for shares of our common stock. The following are examples of such provisions:

- if the number of directors is fixed by the board at eight or more, our board of directors is divided into three classes serving staggered terms, which would make it more difficult for a group of shareholders to quickly replace a majority of directors;
- our board of directors is authorized, without prior shareholder approval, to create and issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us or to effect a change of control, commonly referred to as "blank check" preferred stock;
- members of our board of directors can 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;
- our board of directors may alter our bylaws without obtaining shareholder approval; and shareholders are required to provide advance notice for nominations for election to the board of directors or for proposing matters to be acted upon at a shareholder meeting;
- Oregon law permits our board to consider other factors beyond stockholder value in evaluating any acquisition offer (so-called "expanded constituency" provisions); and
- a supermajority (67%) vote of shareholders is required to approve certain fundamental transactions.

Item 6. Exhibits.

3.1	Sixth Amended and Restated Articles of Incorporation of Pixelworks, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on August 9, 2004).
3.2	Third Amendment to Sixth Amended and Restated Articles of Incorporation of Pixelworks, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2008).
3.3	Second Amended and Restated Bylaws of Pixelworks, Inc. (incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K filed on March 10, 2010).
10.02*	Form of Capital Increase Agreement
10.02a	Schedule identifying agreements substantially identical to the form of Agreement filed as Exhibit 10.02 hereto
10.1	Form of Performance-Based Restricted Stock Unit Agreement (incorporated by reference to the Current Report on Form 8-K filed on April 13, 2021).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101***	Inline XBRL Document Set for the financial statements and accompanying notes in Part I, Item 1, "Financial Statements (Unaudited)" of this Quarterly Report on Form 10-Q
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104***	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set

* Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(b) of Regulation S-K. The registrant hereby undertakes to furnish supplementally a copy of any omitted schedule or exhibit to such agreement to the SEC upon request.

** Exhibits 32.1 and 32.2 are being furnished and shall not be deemed to be "filed" for under the Securities Act of 1933, as amended (the "Securities Act") or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section, nor shall such exhibits be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing, except to the extent specifically stated in such filing.

*** Filed herewith.

SIGNATURE

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

PIXELWORKS, INC.

Dated: August 11, 2021

/s/ Elias N. Nader

Elias N. Nader
Vice President and Chief Financial Officer,
(Duly Authorized Officer and Principal Accounting and Principal Financial Officer)

Investors	Investment (RMB)	Share Percentage
Shanghai MTM Equity Investment Fund Partnership (L.P.)	90,000,000	4.70%
Qingdao MTM Venture Capital Partnership (L.P.)	40,000,000	2.09%
VeriSilicon Microelectronics (Shanghai) Co., Ltd	20,000,000	1.04%
Hangzhou Canaan Creative Information Technology Limited	20,000,000	1.04%
Beijing E-town Changhou Display Chip Venture Capital Center (Limited Partnership)	30,000,000	1.57%
*Ting Xin Lan (Shanghai) Management Consulting Partnership (Limited Partnership)	10,891,000	0.81%
*Xuan Xin Miao (Shanghai) Management Consulting Partnership (Limited Partnership)	27,301,000	2.04%
*Yi Xin Ran (Shanghai) Management Consulting Partnership (Limited Partnership)	24,509,000	1.83%
*Chunhe Hong Kong Limited	17,062,100	1.27%

* *Employee "ESOP" Fund*

Capital Increase Agreement

For

Pixelworks Semiconductor Technology (Shanghai) Co., Ltd.

Date: August 9, 2021

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Capital Increase Agreement

This Capital Increase Agreement (hereinafter referred to as “**this Agreement**”) is executed on August 9, 2021 among the following parties in Pudong New District, Shanghai:

Shanghai MTM Equity Investment Fund Partnership (L.P.), a limited liability partnership enterprise duly incorporated and validly existing in accordance with Chinese laws (“**MTM**” or “**Capital Contributor I**”)

Address: 3303-3306, S2, BFC, No.600 Zhongshan Road(E-2), Huangpu District, Shanghai

Unified Social Credit Code: 91310000MA1FL4N12P

1. **Qingdao MTM Venture Capital Partnership (L.P.)**, a limited liability partnership enterprise duly incorporated and validly existing under the laws of China (“**MTM Venture Capital**” or “**Capital Contributor II**”)

Address: 1006, East Wing, Fenghui Times Building, Taipingqiao Street, Xicheng District, Beijing

Unified Social Credit Code: 91370281MA94CA9U2Q

2. **Hangzhou Canaan Creative Information Technology Limited**, a limited liability company duly incorporated and validly existing in accordance with Chinese laws (“**Canaan**” or “**Capital Contributor III**”)

Address:

Unified Social Credit Code:

3. **VeriSilicon Microelectronics (Shanghai) Co., Ltd**, a limited liability company duly incorporated and validly existing in accordance with Chinese laws (“**VeriSilicon**” or “**Capital Contributor IV**”)

Address:

Unified Social Credit Code:

4. **Ting Xin Lan (Shanghai) Management Consulting Partnership (Limited Partnership)**, a partnership enterprise duly incorporated and validly existing in accordance with Chinese laws (“**Ting Xin Lan**” or “**Capital Contributor V**”)

Address: Building C, No. 888, Huanhu West 2nd Road, Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone

Business Certificate: 91310000MA1H3TK15G

5. **Xuan Xin Miao (Shanghai) Management Consulting Partnership (Limited Partnership)**, a partnership enterprise duly incorporated and validly existing in accordance with Chinese laws (“**Xuan Xin Miao**” or “**Capital Contributor VI**”)

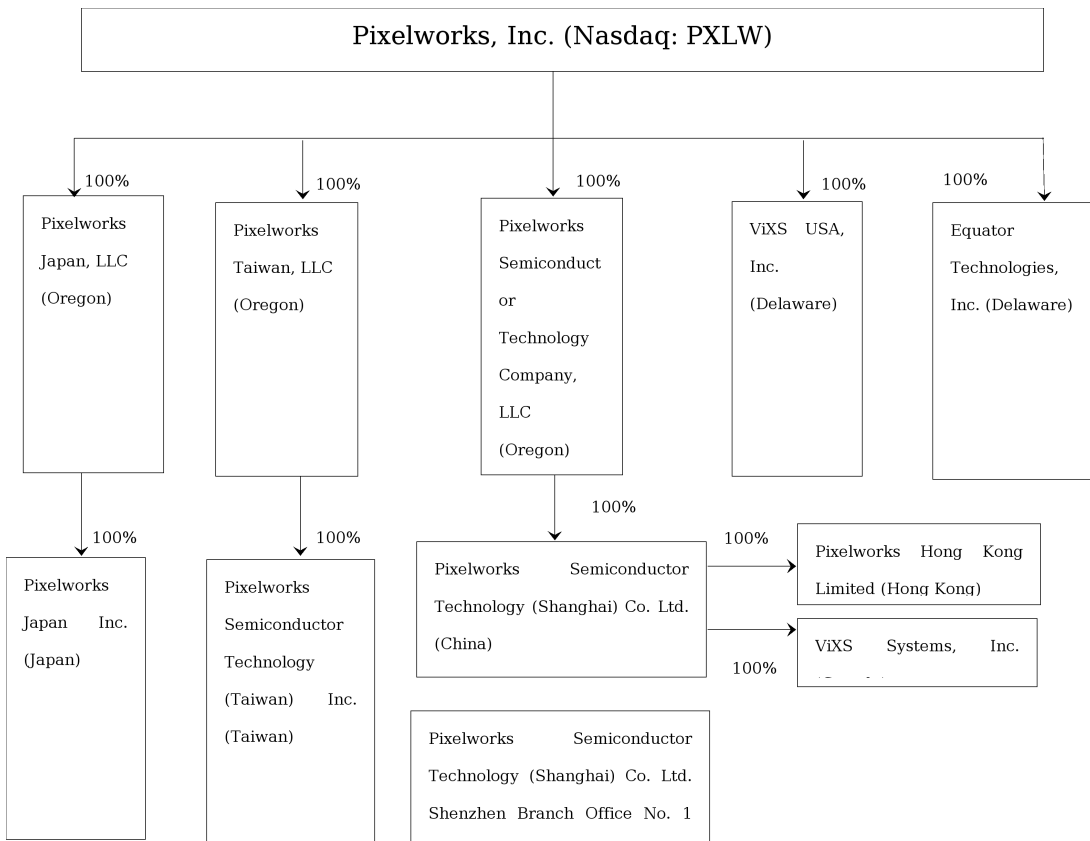
Address: Building C, No. 888, Huanhu West 2nd Road, Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone

Business Certificate: 91310000MA1H3ULA80

6. **Yi Xin Ran (Shanghai) Management Consulting Partnership (Limited Partnership)**, a partnership enterprise duly incorporated and validly existing in accordance with Chinese laws (“**Yi Xin Ran**” or “**Capital Contributor VII**”)
Address: Building C, No. 888, Huanhu West 2nd Road, Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone
Business Certificate: 91310000MA1H3U352P
7. **Chunhe Hong Kong Limited**
A Hong Kong corporation , company number 3054988 (“**Chunhe HK**” or “**Capital Contributor VIII**”)
Address: Rooms 1101-04 38 Gloucester Road Hong Kong
8. **PIXELWORKS SEMICONDUCTOR TECHNOLOGY COMPANY, LLC.**, an American limited liability company, registration number 237548-98 (“**Founding Shareholder**”)
Address: 16760 SW Upper Boones Ferry Road , Suite 101 , Portland, Oregon, the United States of America.
9. **Pixelworks Semiconductor Technology (Shanghai) Co., Ltd.**, a limited liability company duly incorporated and validly existing in accordance with Chinese laws (“**Company**” or “**Target Company**”)
Address: 17 Floor No.1 Sandhill Plaza 2290 Zuchongzhi Road, Pudong New District, Shanghai, China
United Social Credit Code: 913100007696958760

Pixelworks Semiconductor Technology (Shanghai) Co., Ltd., Pixelworks, Inc. (“**PXLW**”) and other affiliates of Target Company shall be respectively or collectively referred to as “**Target Group**” in this Agreement. The contracting parties of this Agreement shall be respectively referred to as a “**Party**” or collectively “**Parties**” in this Agreement.

As of the date of signing this capital increase agreement, the shareholding structure of the Target Group is as follows:



WHEREAS:

1. The Target Company is a limited liability company registered on December 22, 2004. The registered capital is **USD 3.25 million**. The Target Company mainly engages in the design, manufacture and sale of visual display processing semiconductors and custom application specific integrated circuits ("ASIC") solutions for video applications, advanced media processing, and the efficient delivery and streaming of video in the target markets of smartphones, tablets, digital projection systems, high-quality video infrastructure equipment, and over-the-air (OTA) streaming devices. ("**Main Business**")
2. The Target Group has conducted and is conducting a series of restructuring activities ("**Restructuring**") to meet the regulatory requirements for **Qualified Listing** in the future ("**the Completion of Restructuring**"). The specific scheme and the structure chart of Target Group after Restructuring is attached as **Appendix I**.
3. The Capital Contributor desires to subscribe for certain registered capital newly issued by the Target Company according to the terms and conditions of this Agreement.

NOW THEREFORE, the Parties enter into and perform this Agreement based on equality, voluntariness and consensus:

1. DEFINITION

The terms in bold defined in this Agreement shall have the meaning as defined in this Agreement. In addition, the below terms shall have the following meanings when used in this Agreement:

- 1.1 **Transaction Documents** shall mean the transaction documents to be executed by relevant Parties in accordance with the laws and the terms of this Agreement for the purpose of this Capital Increase (as defined below), including but not limited to this Agreement, shareholder resolutions, the articles of association of the Target Group as well as the application documents for the industrial and commercial registration.
- 1.2 **China** shall mean the People's Republic of China, and for the purpose of this Agreement shall not include Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan.
- 1.3 **Laws** shall mean, for any person or entity, any laws, regulations, rules, orders, notices, judgments, rulings, awards, decisions and other forms of documents applicable to such person or entity that are regulatory or legally enforceable issued by any Government Authority or regulatory authority.
- 1.4 **Government Authority** shall mean the legislative, administrative, judicial, regulatory departments, agencies or committees of China or any other country or region.
- 1.5 **Governmental Approval** shall mean the approval, permit, consent, authorization issued by the Government Authority or qualification granted by the Government Authority, or registration and filings to be made with the Government Authority.
- 1.6 **Intellectual Property Rights** shall mean (a) patents, know-how, rights to all of the improvement of the foregoing, rights to apply for patents and extensions, as well as the rights granted by the Chinese Laws or international treaties and conventions; (b) all the trademarks, service marks, logos, trade names and business names, including all the translation, adaptation, derivatives, and the combinations of such items, and including all the goodwill related to such items and all the applications, registrations and extensions of all such items; (c) all the copyright works, copyright and all the related applications, registrations and extensions; (d) all the trade secrets and confidential business information (including database, know-how, formulas, manufacture and production process, technology, technical data, designs, drawings, guidelines, lists of clients and suppliers, pricing and cost information, as well as business and marketing plans and proposals); (e) all the computer programs and software (including data and source and object code and

related documents); (f) all the other property rights in connection with the foregoing.

- 1.7** **Material Adverse Effect** shall mean, the following effects which, individually or in combination with other changes and effect that has resulted in the Target Group's direct economic losses exceeding RMB 10,000,000 in one time: (a) is or is reasonably expected to cause a Material Adverse Effect on the business, assets (including intangible assets), liabilities (whether contingent or otherwise), status (in terms of finance, Laws or otherwise), prospects or operational performance, including but not limited to the core Intellectual Property Rights of the Target Group being announced void by effective judicial documents, the Target Group being sued for the infringement of others' Intellectual Property Rights and losing as ruled by effective judicial documents, the Founding Shareholder no longer being the actual controller of the Target Group and its Main Business, or (b) is or is reasonably expected to cause a Material Adverse Effect on the Qualified Listing.
- 1.8** **Qualified Listing** shall mean company's IPO (initial public offering) and listing on the Shanghai Stock Exchange, Shenzhen Stock Exchange or other securities exchange markets agreed by all parties.
- 1.9** **Related Party** shall mean (a) for any person (including a legal person, a non-corporate entity or a natural person), any other legal person, a non-corporate entity or a natural person that is directly or indirectly controlled by such person, or directly or indirectly controls such person or is under common control with such person; and, for the avoidance of doubt (b) for a natural person, the spouse, children, siblings, parents, the parents of the spouse, and the trustee of any trust whose beneficiary or the sole trustee is such natural person or his/her immediate family member, or any entity or company controlled by the foregoing persons shall be deemed to be a Related Party. The foregoing "**control**" or "**controlled**" shall mean direct or indirect power of management and decision of a subject to make a legally binding instruction or to compel other parties to make such instruction by virtue of holding voting rights, contracts or otherwise.
- 1.10** **Horizontal Competition** shall mean competitor conducts the identical or similar business as the Main Business, and the business has the characters of competition and substitution or there exists conflicts between the competitor and the Target Company in Main Business.
- 1.11** **Material Contracts** shall mean all existing and effective, and the contract amount is not less than RMB 2,000,000 agreements, contracts, leases, licenses, instruments, commitments (oral or written), indebtedness, liabilities and other obligations to which the Target Company is a party or by which it is bound that are material to the conduct and operations of its business and properties.

- 1.12 Working Day** shall mean any day other than Saturday, Sunday or legal holidays in China.
- 1.13 Disclosure Letter:** refers to the specific disclosure made by the Target Group to the Capital Contributors for the performance of this Agreement; see Appendix 2 of this Agreement.
- 1.14 Core Staff** shall mean the key employees identified by the Target Company and listed in the Disclosure Letter as, as of the date of this Agreement, being important to the operation of the Main Business following the Restructuring.
- 1.15 Capital Contributor :** Capital Contributor I, Capital Contributor II , Capital Contributor III , Capital Contributor IV, Capital Contributor V, Capital Contributor VI , Capital Contributor VII , Capital Contributor VIII and Capital Contributor IX are separately referred to as “**Capital Contributor**” collectively referred to as “**Capital Contributors**” in this agreement ; Capital Contributor V, Capital Contributor VI, Capital Contributor VII and Capital Contributor VIII also be collectively referred to as employee stock ownership platforms (“**ESOP**”)

2. CAPITAL INCREASE

- 2.1** Shareholding structure prior to the Capital Increase. According to the agreement on intellectual property transfer signed by the Founding Shareholder and the Target Company on May 17th, 2021, the Founding Shareholder intends to increase the capital (“**IP Capital Increase**”) of the Target Company with the ownership of patented technology and proprietary technology (collectively referred to as “Capital Increase Technology”) of image processing integrated circuit design products (“**Intangible Assets**”). Both parties confirm that, as of the date of signing this agreement, the Founding Shareholder has transferred the ownership of the above Intangible Assets to the Target Company, the Founding Shareholder and the Target Company have signed relevant decisions / resolutions on IP Capital Increase, and only the industrial and commercial change registration of IP Capital Increase has not been completed. After the industrial and commercial change registration of IP Capital Increase is completed, the equity structure of the Target Company is shown in the following table (for the avoidance of doubt, the shareholding ratio in this Agreement and other transaction documents is calculated based on the subscribed capital contribution. In case of any discrepancy between the subscribed capital contribution and the shareholding ratio, the subscribed capital contribution shall prevail):

Shareholder Name	Amount of the Subscribed Capital (Unit: USD)	Shareholding Percentage
PIXELWORKS SEMICONDUCTOR TECHNOLOGY COMPANY, LLC	15,230,000	100%
Total	15,230,000	100%

2.2 Capital Increase. MTM shall pay RMB 90 million to subscribe for the registered capital of the Target Company in the amount of RMB 5.5685million , then, MTM holds 4.70% of the equities of the Target Company ; MTM Venture Capital shall pay RMB 40 million to subscribe for the registered capital of the Target Company in the amount of RMB 2.4749 million, then, MTM Venture Capital holds 2.10% of the equities of the Target Company; Canaan shall pay RMB 20 million to subscribe for the registered capital of the Target Company in the amount of RMB1.2374 million , then, Canaan holds 1.04% of the equities of the Target Company ; VeriSilicon shall pay RMB 20million to subscribe for the registered capital of the Target Company in the amount of RMB1.2374million , then, VeriSilicon holds 1.04% of the equities of the Target Company; Beijing E-town Changhou Display Chip Venture Capital Center (Limited Partnership)(“**E-town Changhou**”, “**Capital Contributor IX**”) shall pay RMB 30million to subscribe for the registered capital of the Target Company in the amount of RMB1.8562million , then, E-town Changhou holds 1.57% of the equities of the Target Company ; Ting Xin Lan shall pay RMB 10.8910 million to subscribe for the registered capital of the Target Company in the amount of RMB 0.9632 million, then, Ting Xin Lan holds 0.81% of the equities of the Target Company ; Xuan Xin Miao shall pay RMB 27.3010 million to subscribe for the registered capital of the Target Company in the amount of RMB 2.4144 million, then, Xuan Xin Miao holds2.04% of the equities of the Target Company ; Yi Xin Ran shall pay RMB 24.5090 million to subscribe for the registered capital of the Target Company in the amount of RMB 2.1675 million, then, Yi Xin Ran holds1.83% of the equities of the Target Company ; Chunhe HK shall pay RMB 17.0621 million to subscribe for the registered capital of the Target Company in the amount of RMB1.5010 million, then, Chunhe HK holds 1.27% of the equities of the Target Company. The above are collectively referred to as this capital increase (“**Capital Increase**”). The amount that the Capital Contributor pays to subscribe for the Capital Increase shall be referred to as “**Subscription Price**”. The portion of the Subscription Price that exceeds the increased resigtered capital of the Target Company shall be reserverd as capital premium of the Target

Company. The foreign exchange rate applicable to the Subscription Price shall be the middle price of the buying and selling price of RMB to US\$ exchange rate published by the People's Bank of China on the Closing Date. Subscription Price shall be used for the technical research and development, production and sales related to the existing and future chip products of the Target Company, and to supplement the working capital required for the daily operation of the Target Company.

2.3 Shareholding structure after the Capital Increase. As for the Capital Increase, the Founding Shareholder hereby expressly waive their pre-emptive rights and all other rights under the Laws or contractual arrangement (if applicable). Each Party hereby acknowledges that E-town Changhou also participate in this capital increase by signing the accession agreement and enjoy the same rights and obligations as other Capital Contributors herein. The shareholding structure after completion of the Capital Increase is set forth below:

Shareholder Name	Amount of the Subscribed Capital (in RMB10000)	Shareholding Percentage
PIXELWORKS SEMICONDUCTOR TECHNOLOGY COMPANY, LLC	RMB9,899.50	83.60%
Shanghai MTM Equity Investment Fund Partnership (L.P.)	RMB 556.85	4.70%
Qingdao MTM Venture Capital Partnership (L.P.)	RMB 247.49	2.10%
Hangzhou Canaan Creative Information Technology Limited	RMB 123.74	1.04%
VeriSilicon Microelectronics (Shanghai) Co., Ltd	RMB 123.74	1.04%
Beijing E-town Changhou Display Chip Venture Capital Center (Limited Partnership)	RMB 185.62	1.57%
Ting Xin Lan (Shanghai) Management Consulting Partnership (Limited Partnership)	RMB 96.32	0.81%
Xuan Xin Miao (Shanghai) Management Consulting Partnership (Limited Partnership)	RMB 241.44	2.04%
Yi Xin Ran (Shanghai) Management Consulting Partnership (Limited Partnership)	RMB 216.75	1.83%
Chunhe Hong Kong Limited	RMB 150.10	1.27%
Total	RMB11,841.54	100.000%

2.4

Closing.

After all the pre-closing conditions under Article 2.10 under this Agreement are fully met or waived by the Capital Contributor in written format, every Capital Contributor shall pay all the Subscription Price to the designated bank account by the Target Company respectively (“**Closing**”). The payment obligations of the Capital Contributors under

this Agreement are separate and non-joint. The Target Company shall, on the second working day after each Capital Contributor performs its settlement obligations, deliver to each Capital Contributor the paid in capital contribution certificate and the register of shareholders confirming that each Capital Contributor has completed its paid in capital contribution obligations, and affix the company's official seal.

Within five (5) working days after the Closing, the Target Company shall file the change of registration and filing with local administration (SAMR) and local bureau of commerce for this Capital Increase (including the registration of the change of company type, registered capital, shareholder and equity ratio in SAMR and the corresponding filing with the local bureau of commerce) ; The Target Company shall, within 5 working days after completing the industrial and commercial change registration, deliver a copy of the updated business license stamped with the company's official seal to the Capital Contributors, and deliver to MTM a certificate showing that the director appointed by MTM has been registered as a director of the target company (stamped with the inquiry seal of the competent municipal regulatory bureau).

2.5 Account to receive payment.

The account information for the Target Company to receive the Subscription Price from the Capital Contributor under this Agreement shall be informed by the Target Company five (5) working days before the closing.

2.6 Overdue performance. In the event that the Capital Contributor is overdue in payment obligations, the Capital Contributor shall pay 0.03% of the overdue payment for each overdue day as overdue liquidated damages to the Target Company, from the overdue date till the date of actual payment.

2.7 Good faith cooperation. The Target Group and the Founding Shareholder undertake that from the execution of this Agreement till the completion of the Capital Increase, they shall collaborate with the Capital Contributor in good faith to facilitate the completion of the Capital Increase, and:

(1) *To operate normal business:* the Target Group shall maintain its business in its normal course of business in a manner consistent with applicable laws, and ordinary and prudent course of business and make a reasonable effort: (1) to maintain the integrity of the business organization, (2) to maintain the relationship with third parties (including suppliers, customers, etc.), (3) to maintain the labor relationship with the Core Staff, (4) to maintain the current conditions of all the assets and property owned or used by the Target Group (except for normal operation and loss), and (5) to maintain and update the registered Intellectual Property;

- (2) *To provide reasonable materials:* during normal working hours, the Founding Shareholder and the Target Company shall provide materials concerning the Target Group reasonably requested by MTM and its representatives, including but not limited to provision of the Target Group's accounts, contracts, technical information, personnel information, management information and other documents to the attorneys, accountants and other representatives appointed by the Capital Contributor.
- (3) *To maintain timely communication:* the Target Company shall inform the Capital Contributor in writing immediately but in no event later than three (3) working days after the occurrence of any of the following events and discuss with the Capital Contributor the impact on the Target Group of such event to facilitate the stabilized operation of the Target Group:
- (A) the Target Group believes a change in the capital, finance, assets, liabilities, business, prospects or operational aspects is likely or is reasonably expected to result in a Material Adverse Effect;
 - (B) Any matters that may cause the Target Group or Founding Shareholder materially breach any representations, statements and warranties or other provisions under this Agreement.
 - (C) the Target Group enters into an agreement involving the supply, sale and research and development of products that contains terms "that are beyond the scope of normal negotiation based on common business judgment and are extremely unfair without reasonable commercial cause for interpretation", or signs off any proposal and intention related to the foregoing matters;
 - (D) the failure of any Governmental Approval for every entity of the Target Group (if applicable).

2.8 Redemption Obligation. In case that any of the following occurs: (a) the Target Company failed to consummate the Qualified Listing before June 30th, 2024, or (b) prior to consummation of the Qualified Listing the Founding Shareholder and / or the Target Group have seriously violated the relevant representations, warranties, agreements, commitments and obligations under this agreement (including but not limited to the restructuring plan in serious violation of Appendix I to this Agreement), such that if left unresolved it would prevent the Qualified Listing from consummating before June 30, 2024, the Capital Contributor has the right to request the Company and/or Founding Shareholder to repurchase all or part of the Company's equity held by Capital Contributor at the original subscription price of the equity plus 3% annual interest per year (From the date of closing day).

2.9 MTM has the right to appoint one director in the board of the Target Company after closing; provided, that this right no longer applies after the Qualified Listing.

2.10 Prerequisite for closing. After this agreement is executed and the following conditions are fully met or MTM has waived in writing (no joint exemption is required and the effect is limited to the exempt party), each party shall make the closing of capital increase in accordance with the provisions of this agreement:

(1) The Target Company and the Founding Shareholder have submitted to the Capital Contributor the following:

- (a) the shareholders' decision/resolution of the shareholders' meeting signed by all existing shareholders of the Target Company and the board of directors' resolution signed by the existing board of directors of the Target Company regarding the Capital Increase (including approval of the new articles of association of the target company for this capital increase).
- (b) PXLW has passed board resolution regarding Restructuring and the Capital Increase.
- (c) and all Governmental Approvals to be obtained by the Target Company and the existing shareholder or other permits, authorizations or consents from third parties and that should be obtained regarding the Capital Increase and the Restructuring, with the implementations of announcements and legal procedures (Except for the industrial and commercial changes that need to be handled as a result of this capital increase and the circumstances listed in Appendix III) .

(2) The Prerequisite for closing (Appendix I) has been completed.

(3) The Founding Shareholder of the Target Company expressly waives the preemptive right and all other privilege entitled according to the law or the contracts;

(4) The Capital Contributor has completed due diligence on the Target Group in terms of law, finance, management, technology, Intellectual Property rights and licenses, and expressed satisfaction with the results;

(5) The representations and warranties of Target Company and the existing shareholders under this Agreement were true, integrated and correct at the time they were made and remain true, integrated and correct to the date of payment of the capital increase by the Capital Contributor.

(6) There are no changes which will have Material Adverse Effect in the commercial, technical, legal or financial aspects of the Target Company, and there are no matters beyond the normal operation of the Target Company.

(7) There are no claims against the Target Company and/or its subsidiaries, affiliates, or existing shareholders, or claims that have arisen or are known to be likely to arise with respect to the Target Company, existing shareholders, and which are intended to limit the transactions under this Agreement, or to materially alter the terms or conditions of this Agreement, or which, in the reasonable and good faith judgment of Capital Contributor, may render the consummation of the transactions under this Agreement unattainable or unlawful or inappropriate to proceed, or which may have a Material Adverse Effect on the Target Company, its subsidiaries, or its then-existing shareholders.

(8) No government departments have made, issued, promulgated, enforced or passed any law or governmental orders that would render the transactions under this Agreement unlawful or restrict or prohibit the transactions under this Agreement.

(9) The Target Company and the Founding Shareholder shall have delivered a closing certificate to the Capital Contributor.

2.11 Closing day. No later than the third working day after all the closing preconditions listed in Article 2.10 of this Agreement are met.

2.12 Commitments after the closing. The Target Company and the Founding Shareholder agree to complete the following matters after the closing:

(1) After the closing date , completing the restructuring steps in Appendix I to this agreement as soon as possible and no later than December 31, 2021, and (b) complying with the commitments after closing in Appendix I to this agreement.

(2) After the Completion of Restructuring, the Target Company covenants that it has no significant or material debts to the Founding Shareholder, PXLW or other counterparties in the process of Restructuring (excluding reasonable and necessary related party transactions within the target group).

(3) The Target Group promises to urge and ensure that the Target Company will comply with various laws and regulations regarding the qualified listing on the Shanghai Stock Exchange and Shenzhen Stock

Exchange, as well as the regulations of the China Securities Regulatory Commission and Stock Exchange.

2.13 Document Format. The Target Company make covenants that all documents submitted by the Target Group for the completion of pre-closing conditions and post-closing covenants to the Capital Contributor must be provided with originals stamped with the cross-page seal by the Target Company if they are agreements. While for approvals and certification documents related to Restructuring, originals must be provided (if the originals are not applicable, the Target Company shall provide copies stamped with the official seal of the Target Company).

3. Special rights for the Capital Contributor

3.1 Right to know financial information. After the closing date and until the Qualified Listing, during the period when Capital Contributor holds the equity of the Target Company, the Target Company shall provide the Capital Contributor with the financial information required by the Capital Contributor within a reasonable range.

3.2 Liquidation preference. After the Closing and until the Qualified Listing, the Target Company confirms and promises that if the Target Company conducts liquidation, it will pay liquidation fees, employee wages, social insurance fees and statutory compensation, pay taxes owed, and pay off the company's debts in accordance with applicable laws and regulations, the Capital Contributor has the right to give priority to the return of the invested principal plus the annual interest (simple interest) of the People's Bank of China's benchmark loan interest rate for the same period and deduct the dividends that Capital Contributor has already obtained from the company (if applicable) from the date when the party actually pays the investment funds to the date when the actual distribution is made to the Capital Contributor, prior to any returns to the Founding Shareholder, but with the same priority as the ESOP, provided that the amount distributed to each ESOP shall not exceed the capital contributed by such ESOPs respectively.

3.3 Joint Right of Sale. If, prior to the Qualified Listing or liquidation of the Target Company, Founding Shareholder intends to transfer all or part of its equity interest in the Target Company to any person (the "**Transferee**"), the Capital Contributor shall have the right to transfer its equity interest in the Company to the Transferee at the same price and on the same terms and conditions as proposed by the Transferee, together with the Capital Contributor. The amount of the equity interest to be exercised by the Capital Contributor is the product of the amount of the equity interest to be transferred by the Founding Shareholder and the joint sale ratio described below. (Co-selling ratio = the percentage of the equity interest in the Target Company held by the Capital Contributor divided by

(the percentage of the equity interest in the Target Company held by the Capital Contributor at that time plus the percentage of the equity interest in the Target Company held by the Founding Shareholder at that time)).

- 3.4 Pro Rata Participation Right.** So long as the Capital Contributor holds an equity interest in the Target Company, the Capital Contributor shall have the option and the right to participate in any new private equity financing conducted by the Target Company after the Closing but prior to the Qualified Listing, on a pro rata basis as determined by reference to the Capital Contributor's equity interest on the day prior to the closing of such equity financing, at the same price and the same terms and conditions as offered to other investors in the new equity financing.

4. REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

- 4.1 Representations and warranties of each Party.** Each Party of this Agreement shall undertake to other Parties severally and not jointly that, as of the date of this Agreement:

- (1) Such Party is an entity duly incorporated, validly existing and in good standing under the applicable laws of the jurisdiction of such entity;
- (2) Under applicable pertinent Laws, such Party possesses all the power, authorization and approval necessary to enter into this Agreement and to perform every obligation under this Agreement, including all the internal resolutions and authorization, and such Party has obtained (or does not need to obtain) all the external approvals, registration, assessment, filings, consent and notification from relevant government authorities, regulatory authorities, financial institutions, or other types of third parties required by the Laws or contracts, including but not limited to state-owned assets, financial regulatory, foreign investment approvals and so forth;
- (3) The representative of such Party signing this Agreement is duly authorized to sign this Agreement and this Agreement shall constitute a legal, effective, binding and enforceable obligation of such Party under the terms of this Agreement upon execution of this Agreement;
- (4) As of the date of this Agreement, all the shareholders of the Target Company have fully paid their subscribed registered capital and made full payment of the price to subscribe such registered capital (for the avoidance of doubt, each Party hereby states that the representations and warranties in this paragraph (4) are only applicable to the Founding Shareholder).

4.2 Representations and warranties of the Target Group. In addition to the representations and warranties set forth in Article 4.1 of this Agreement, the Target Group represent and warrant to Capital Contributor that (except for the exceptions set forth in relevant representations and warranties, and facts that do not cause a Material Adverse Effect), as of the date of this Agreement:

- (1) The Target Group is a company duly incorporated and validly existing under the laws of its place of incorporation and possesses all the Governmental Approvals necessary to carry out the current business (only limited to those applied in the name of the Target Group) which have full effect. In the meantime, the Target Group has not violated such Governmental Approvals in all material aspects and has the full corporate rights and authorization necessary to carry out its ongoing Main Business.
- (2) For this capital increase and Restructuring, the target group has obtained all applicable government approvals, approvals and consents (including the registration jurisdictions of the entities within the group), and abides by the articles of association and relevant laws and regulations of their respective registration jurisdictions; PXLW has complied with the rules of U.S. Securities and Exchange Commission and NASDAQ Stock Exchange and made necessary declarations and disclosures.
- (3) The Capital Increase Technology agreed in the intellectual property transfer agreement has completely covered all the intellectual property rights that must transferred to the Target Company in order to carry out its main business.
- (4) All the information or data provided to the Capital Contributor for the determination of the Capital Increase is true, correct and accurate and is not misleading in all the substantial and material aspects and doesn't have any material omission.
- (5) The Target Group does not have any irregular adjustment of sale and expense policies to inflate sale and profits.
- (6) The Core Staff have no significant personal integrity issues, including but limited to the following: the Target Group has off-the-books sales revenue in cash, off-the-books expenses, off-the-books liabilities, large amounts of corporate funds taken by the major shareholder, major legal dispute, and significant internal control loopholes purposefully caused by the Founding Shareholder or Core Staff that the Capital Contributor is unaware of.
- (7) The Target Company has not (a) seriously violated the provisions of the law, (b) seriously violated the approval of relevant government

authorities, (c) violated the provisions of its articles of association, or (d) failed to perform or abide by any important obligation, agreement, commitment or condition in any contract to which it is a party or binding on it or any of its properties. The Target Company has not received any notice of such breach, violation or omission.

- (8) Unless the Founding Shareholder and the Capital Contributor reach an agreement, prior to completion of the registration of the Capital Increase with local administration, the Target Group shall not allocate undistributed profits. Such undistributed profits shall be shared by all the shareholders of the Target Company according to the shareholding percentage of the Target Company based on the capital then held and actually paid up after completion of the registration of the Capital Increase with local administration.
- (9) The Target Group has the legal ownership and/or rights to use any main non-fixed assets, fixed assets, Intellectual Property Rights or other intangible assets owned, held or used by the Target Group (“**Company Assets**”). The Target Group has all necessary Company Assets for Main Business and there are no mortgage, pledge, or other security rights on any such Company Assets. The following has not occurred to the Company Assets: (i) any trust or similar arrangement of any Company Assets, or (ii) seizure, detention, freezing or compulsory transfer measures taken by any judicial or administrative department, or (iii) any major conditions likely to affect the rights and interests of the Target Group on the Company Assets or major conditions that result in any third party to directly or indirectly obtain rights and interests of any Company Assets, except for events in the normal course of operation of the Target Group.
- (10) The patents, trademarks, service marks, trade names, copyrights, software rights, domain names, know-how, design rights and invention, licenses and other Intellectual Property Rights owned or used by the Target Group are in compliance with the provisions of the Chinese Laws or the applicable countries’ Laws. The Target Group has been diligent in maintaining the effect of the Intellectual Property Rights owned by the Target Group. To the actual knowledge of the Founding Shareholder and the Target Company: (i) there is no infringement on the Intellectual Property Rights of a third party in the operation of the Target Group; (ii) there is no pending Intellectual Property Rights claimed by a third party stating that the operation of any Target Group infringes or is likely to infringe on a third party’s Intellectual Property Rights or opposes to any Intellectual Property Rights held or used by such third party being used by the Target Group; (iii) there is no infringement or potential infringement by any third party on the Intellectual Property Rights held or used by the Target Group.

- (11) The provisions of this Agreement (including the Restructuring and the Capital Increase) do not violate the articles of association or other forms of corporate documents of the Target Group or the Laws applicable to the Target Group (including without limitation, the transfer of technologies, intellectual property and know-how during the Restructuring will not violate any US laws and regulations regarding to export control) The provisions of this Agreement do not release any third party's obligations or grant any rights to any third party (including any right of termination, priority or other options), except as otherwise set forth in this Agreement.
- (12) All of the Material Contracts are valid, subsisting, in full force and effect and binding upon the Target Company. The Target Company is not in default or breach under any of the Material Contracts. The Target Company has not received from any other party any written notice regarding a violation or breach of, or default under, or intention to early terminate, any Material Contract. Consummation of the transactions contemplated by this Agreement will not (and will not give any other party a right to) terminate or modify any rights of, or accelerate or augment any obligation of, any Group Company under any Material Contract
- (13) The Target Group does not have outstanding liabilities and legal obligations that may seriously affect the contemplated transaction under the terms and conditions of this Agreement.
- (14) The Target Group does not have any material or contingent liabilities that are not disclosed to the Capital Contributor, including but not limited to provision of any forms of warranty or guarantees by the Target Group to any entity and natural person.
- (15) The principal financial system, books, management, use of voucher and invoice as well as tax reporting and withholding and prepayment of the Target Group are in compliance with applicable financial and tax Laws and regulations. There is no public investigation or penalty due to tax arrears, delay in tax payment, tax evasion, tax fraud or other breach of tax Laws and regulations. The Target Company has the internal financial system which ensures that: (a) any transaction conducted is based on general or special authorization of management; (b) any transaction shall be recorded based on Chinese Generally Accepted Accounting Principles to prepare financial statements; (c) obtaining assets based on general or special authorization of management; (d) the Target Company shall reasonably compare the bookkeeping assets with the existing assets on a regular basis and make appropriate adjustments to the difference; and (e) the Target Company shall prepare and keep books of account, records and accounts, and the content of those can

accurately and fairly reflect the transactions and disposal of the assets.

- (16) There's no significant liabilities, debts or unpaid fees or tax of the Target Company due to materially breach of the Chinese Law on labor and employment (including but not limited to labor contract, salary, working time, social insurance, housing fund contributions).
- (17) The Target Group has not been subject to a public investigation and penalty by any government environmental departments for environmental violations. There is no actual or expected liability, obligation or duty against the Target Group for its violation of environmental Laws or under environmental Laws that results in ongoing claims, legal actions or litigation or investigation.
- (18) The Target Group has not bribed a counterpart entity or individual for sale or purchase of goods by means of property or otherwise, or provided any property or other benefit to Government Authorities and government officials to influence the Government Authorities' decisions. The Target Group has not been subject to a public investigation and penalty by any judicial departments for violation of anti-commercial bribery Laws and regulations.
- (19) The Target Company has signed labor contracts with all its employees; all the Core Staff has signed confidentiality agreements, Intellectual Property protection agreements.
- (20) There is no ongoing litigation, administrative penalty, administrative reconsideration, appeals and other legal procedures instituted by or against the Target Group or related to the Target Group. There is no undisclosed legal liability or obligation that the Target Group is subject to but has not fulfilled based on the judgments, awards or decisions rendered by the court, arbitration agency or other judicial and administrative departments.
- (21) From the date of signing of this agreement to the closing date, except for the implementation of **Restructuring** and the capital increase, the target group and founding shareholders will not urge or allow the target company, and the target company will not take any of the following actions
 - (A) to terminate operation of the current business or alter any part of the current business of the Target Company;
 - (B) to sell or deposit all or substantially all of intangible assets or assets of the Target Company; (B) Selling or disposing of all or most of the intangible assets or assets of the target company; through any incentive plan or granting any options for capital increase, capital reduction, equity changes (except for matters that meet the preconditions for delivery under this

agreement), the target company Attract any investment other than this capital increase or obtain any investment commitment to change the form of the target company

- (C) to create or permit the generation or issuance of any debts or burden of rights that constitute guaranty, lien, mortgage or other encumbrance to all or any reputation, asset or rights of the Target Company;
- (D) to sale, transfer, license, mortgage, set any encumbrance or dispose any trademarks, patents, copyrights or other intellectual properties of the Target Company in other ways;
- (E) to approve the transfer of the Target Company except for fulfilling this Agreement; to transfer any direct or indirect interest of the Target Company except for the purpose of its daily operation.

- (22) Based on the reasonable judgment of the Target Group, the documents, statements and information likely to have a significant impact on the ability of the Capital Contributor to fully perform the obligations under this Agreement or the willingness of the Capital Contributor to conclude this Agreement has been fully disclosed to the Capital Contributor. All the documents, statements and information regarding the Capital Increase and the Main Business of the Target Company provided by the Target Company to the Capital Contributor or its attorneys, accountants and other representatives are true, accurate, complete and not misleading in all material aspects.

4.3 Timely notice. The Target Company undertake that, if they become aware of any circumstance that renders any representation and warranty under the above paragraph 4.2 becomes untrue, inaccurate or misleading in any material aspects, they shall immediately notify the Capital Contributor in writing.

4.4 Undertakings of the Target Group. In addition to the commitments after the closing in article 2.12 of this agreement, the Target Group undertake to the Capital Contributor that after Closing (except for circumstance unlikely to cause a Material Adverse Effect):

- (1) The Target Group shall make its best effort to obtain all the environmental approvals required under all the environmental protection Laws, regulations, ordinances and rules (including but not limited to the environmental impact assessment, environmental completion acceptance and all the pollutant discharge permit of any construction projects), and shall comply with such environmental permits and all the requirements of the environmental protection Laws, regulations, ordinances and rules.

- (2) The patents, trademarks, service marks, trade names, copyrights, software rights, domain names, know-how, design rights and invention, license and other Intellectual Property Rights owned or used by the Target Group in the future shall conform to the Chinese Laws or the applicable countries Laws.
- (3) Except for being waived by MTM and until the date of the Qualified Listing, (i) within two (2) years after the end of holding equities in the Target Company, the Founding Shareholder shall not: (a) own or manage a controlling interest in any business that is competitive with the Main Business of the Target Company (“**Competitive Business**”); (b) induce, persuade or solicit any of the Core Staff or US Core Executives to terminate the labor relationship with the Target Company or related subsidiaries; (c) induce, persuade, or solicit any customers to terminate the service relationship with the Target Company; or (d) assist others to conduct any of the above events. The scope of the above Competitive Business shall be adjusted in accordance with the adjustment of the future Main Business of the Target Company. The foregoing restrictions do not apply after the Qualified Listing.
If it is necessary for a Qualified Listing, the Target Group undertakes to ensure that the Core Staff of the Target Company or its existing or future newly established subsidiaries will then sign the necessary non-competition agreements in accordance with the requirements of the China Securities Regulatory Commission.
- (4) Target Company operates legally and compliantly after the closing date, and abides by taxation, finance, social security, labor, and other relevant applicable laws and regulations.

4.5 Representations and warranties of the Capital Contributor. Each of the Capital Contributor separately and not jointly undertakes to the Founding Shareholder and the Target Group which is not joint and several that:

- (1) The Capital Contributor has completed the equity investment fund registration (if necessary) before the target company application for IPO as required by applicable Chinese Laws or regulatory authorities. If the ultimate beneficial owner of the Capital Contributor fails to complete the equity investment fund registration (if necessary) to the result that the process of the IPO of the Target Company is affected, the Capital Contributor shall take all the remedial measures to promptly complete the registration to eliminate the obstacle of the qualified IPO of the Target Group resulting therefrom.
- (2) The Capital Contributor or its partners, shareholders or all of its ultimate investors are not civil servants or other persons prohibited or restricted from investment under the Chinese Laws, regulations,

ordinances or policies; The Capital Contributor or its partners, shareholders, or every level of its retrospective penetrating subjects comply with the Laws and regulations as well as the regulations of the securities exchange commission concerning the shareholders of a Pre-IPO enterprise.

- (3) The capital increase by the Capital Contributor into the Target Company complies with the Chinese relevant Laws, regulations, ordinances and policies. The Capital Contributor is not affiliated with the staff of the agencies for the IPO of the Target Company and does not have any other contractual arrangement concerning the investment of the Target Company. The capital injection by the Capital Contributor into the Target Company is merely one of its investment projects.
- (4) After the Capital Contributor invests in the Target Company, during the preparation of the initial public offering and IPO in the domestic securities market of the Target Company, the Target Company is entitled to carry out legal, financial and operational due diligence towards the Capital Contributor within the necessary scope according to the requirements of the relevant laws. The Capital Contributor shall provide a complete set of relevant valid materials within a reasonable period of time as requested by the Target Company. If, based on relevant Laws and regulations of the securities exchange commission, there is a significant obstacle or a Material Adverse Effect posed to the IPO of the Target Company due to the Capital Contributor's reasons (including but not limited to existence of contractual private equity funds, asset management plans or trust schemes among the Capital Contributor or its partners, shareholders, or every level of its retrospective penetrating subjects), the Capital Contributor shall eliminate such obstacle or negative impact within the time period reasonably proposed by the agencies in the IPO project of the Target Company. In the event that the Capital Contributor fails to eliminate such obstacle or negative impact within the foregoing reasonable period, the Capital Contributor undertakes to transfer the equities of the Target Company held by itself to a qualified third party meeting the IPO requirements of the Target Company within the time period reasonably proposed by the agencies in the IPO project of the Target Company.
- (5) The Capital Contributor shall strictly enforce any warranty and representation under Article 4.5. In the event of violation of any warranty and representation which results in any losses suffered by the Target Company, the Capital Contributor shall compensate and hold the Target Company harmless, and such compensation shall restore the Target Company to a state where relevant warranty or representation is not breached.

5. CONFIDENTIALITY AND EXCLUSIVITY

- 5.1 Scope of confidentiality. The terms and details relevant to this Agreement and its appendices (including all the provisions such as the existence of this Agreement and any relevant Transaction Documents) are confidential information which each party of this Agreement shall not disclose to any third party, except as otherwise provided.
- 5.2 Confidentiality obligations. Each Party shall strictly keep confidential of any proprietary or private or confidential data and materials (i) concerning the Target Group and the Main Business, or (ii) belonging to other parties, or (iii) disclosed to it by other Parties at any time or disclosed to it for the negotiation of this Agreement or for the establishment or operation of the company and relevant information of this Agreement (“**Confidential Information**”), and shall not disclose such Confidential Information to any third parties or persons other than each Party of this Agreement, the Target Group, the Shareholding Platform, professional advisers and relevant Government Authorities . In particular, PXLW, as a U.S. listed company is, not subject to Article 5.2 if it is required to disclose to the public this agreement or the relevant information of this capital increase transaction under the U.S. federal or Oregon state laws and regulations within a reasonable and necessary range.
- 5.3 Permitted disclosure. Notwithstanding the foregoing, each Party is entitled to disclose the Capital Increase transaction and its Transaction Documents within a reasonable and necessary scope to its affiliates, shareholders, current and potential investor, senior management or employee, provided that the person or agency that becomes aware of the information has agreed to keep confidential of the Confidential Information and the disclosing party assumes and undertake joint and several liability for the confidential obligation of the information receiving party.
- 5.4 Exceptions. The information disclosed in the following circumstances is not subject to the foregoing restrictions:
- (1) Disclosure or use required by the Chinese Laws or any regulatory authorities;
 - (2) Disclosure or use mandated by any judicial proceeding arising from this Agreement or any other agreements made under this Agreement or reasonable disclosure of relevant matters to tax authorities;
 - (3) Disclosure to professional advisers of each Party. However, each Party shall require such professional advisers to comply with this provision relating to such Confidential Information as if they were a party to this Agreement;

- (4) The information has become public without any breach of confidentiality obligations;
- (5) The information has been approved to be disclosed or used in writing by all the other Parties of this Agreement.

If the Confidential Information is disclosed for the reasons set forth in the above paragraphs (1) and (2), the disclosing party shall discuss with other parties for the disclosure and submission of relevant information in a reasonable period of time before the disclosure or submission of the information, and shall require the receiving party to keep confidential of the disclosed or submitted information under such circumstances to the extent possible.

6. FORCE MAJEURE

- 6.1 Force majeure. In the event of an earthquake, war, any act or omission of the government, government injunction or an incident that cannot be foreseen, prevented, avoided, controlled by other Parties to this Agreement such that the Parties cannot perform this Agreement, the affected party may be exempted from its liabilities if it has exercised reasonable and prudent duty of care; if this Agreement cannot be performed/continue to be performed due to a force majeure event, the affected party shall take reasonable measures to eliminate and prevent further expansion of losses.

7. LIABILITY FOR BREACH OF THE AGREEMENT

- 7.1 Liability for breach of the Target Group. The Target Group agrees with regard to the following matters, the Target Group shall indemnify, defend, and hold the Capital Contributor harmless from, any economic damage, loss, claim, litigation, payment request, judgment, settlement, taxation, interest and expense (including but not limited to reasonable attorney's fees) (however, any loss of proceeds or expected proceeds of the Capital Increase and loss or expected losses of the Capital Increase is expressly excluded) suffered or incurred by the Capital Contributor, or brought by a third party against and suffered or incurred by the Capital Contributor or its Related Parties, directors, partners, shareholders, employees, agents and representatives ("**Indemnified Persons**") (The foregoing claims by a third party shall be confirmed by an effective judicial judgment, and the Target Group shall be provided with a written notice in advance with a reasonable period of time so that the Target Group have an opportunity to effectively participate in any such judicial proceeding to state the opinions, provide evidence and response. Further, any damages determined by mediations, settlements and other non-mandatory awards shall have been approved by the Target Group in writing before mediations and settlements.):

The Target Group breaches any representation, warranty, undertaking, covenant or obligation under this Agreement (except for cases those are not considered as violations according to the relevant provisions).

If the Target Group materially breaches the relevant representations, warranties, covenants, undertakings or obligations under this Agreement, resulting in triggering the repurchase obligation as stipulated in Article 2.8 of this Agreement, the Capital Contributors shall have the right to choose to (a) pursue the Target Group for breach of contract as stipulated in Article 7.1 of this Agreement, or (b) require the Target Company or the Founding Shareholder to repurchase all of its equity interest as stipulated in Article 2.8 of this Agreement.

- 7.2 Breach of the Capital Contributor.** In the event that the Capital Contributor delays in the performance of this Agreement as set forth in Article 2.6 herein and such partial performance continues for more than thirty (30) days, the Target Company is entitled to require the Capital Contributor in writing to continue to perform this Agreement. With the written consent of the Founding Shareholder, the Target Company is entitled to elect to notify all the other relevant Parties in writing (1) to terminate this Agreement, or (2) to terminate the rights and obligations under this Agreement for the Capital Increase of each Party and such Capital Contributor, that is, such Capital Contributor exits from the Capital Increase. The rights and obligations of each of the Capital Contributor under this Agreement are independent of each other and the other Capital Contributor shall not be jointly and severally liable for any breach by any of the Capital Contributor of any of their commitments or obligations under this Agreement. The rights and obligations of each of the Capital Contributor are independent of each other and the other Capital Contributor shall not be jointly and severally liable for any breach by any of the Capital Contributor of any of their commitments or obligations.
- 7.3 Costs for protection of rights.** Each Party agrees that, in the event that a non-breaching party pursues a breach of contract against the breaching party due to breach of this Agreement by the breaching party, such non-breaching party shall be entitled to require the breaching party to compensate the costs incurred by the non-breaching party for protection of rights to pursue breaching liabilities, including but not limited to reasonable attorney's fees, notary fees, appraisal fees, and assessment fees and so forth.

8. EFFECTIVENESS, SUPPLEMENT, AMENDMENT AND TERMINATION OF THE AGREEMENT

- 8.1 Effectiveness, supplement and amendment.** This Agreement shall take effect upon signing (in case of a natural person) and stamping (where it is

not a natural person) of the Parties of this Agreement. The appendix of this Agreement shall be an integral part of this Agreement and shall supplement this Agreement with equal legal effect. Where the appendix of this Agreement is in conflict with the text of this Agreement, the text of this Agreement shall prevail and shall be amended accordingly. This Agreement may be amended or changed after the Parties to this Agreement reach consensus. Any amendment or change shall be made in writing and shall be signed (in case of a natural person) and stamped (where it is not a natural person) of the Parties of this Agreement.

8.2 Termination. This Agreement shall be terminated in the following manner (for the avoidance of doubt, each Party agrees that, regardless of the provisions of the Laws or contract, this Agreement shall not be terminated for any other reasons):

- (1) The Parties to this Agreement shall mutually terminate in a written agreement and determine the effective date of termination;
- (2) In the event that the Founding Shareholder and/or the Target Group is in serious breach of the representations, warranties, covenants, undertakings and obligations under this Agreement which results in a Material Adverse Effect and renders the purpose of entering into this Agreement by the Capital Contributor impossible, and if the Founding Shareholder and/or the Target Group fails to take effective remedial measures within thirty (30) Working Days from the receipt of the remedial notice from the Capital Contributor, the Capital Contributor is entitled to notify all the other Parties in writing to terminate this Agreement and shall specify the effective date of termination in such written notice (such date shall not be earlier than ten (10) Working Days from the date when such notice is sent);
- (3) This Agreement is terminated by the parties with a termination right in accordance with the conditions and procedures set forth in Article 8.2.

8.3 Effect of termination. In the event that this Agreement is terminated in accordance with the foregoing Article 8.2(1), except as otherwise stipulated by all the Parties at that time, each Party of this Agreement shall return the consideration under this Agreement received from the other Parties based on the principles of fairness, reasonableness, and honesty and restore to a state at the point of execution of this Agreement to the extent possible. In the event that this Agreement is terminated according to Article 8.2(2) under this Agreement, the Founding Shareholder shall pay the compensation. The compensation shall be the actual loss that can be proved by the capital contributor.

9. APPLICABLE LAW AND DISPUTE RESOLUTION

- 9.1 Applicable Law. The conclusion, validity, interpretation, performance and dispute resolution of this Agreement shall be governed by and construed in accordance with the Chinese Laws. However, if the published Chinese Laws do not address specific matters related to this Agreement, reference shall be made to the common international business practice to the extent permitted by the Chinese Laws.
- 9.2 Arbitration clause. All disputes arising from or in connection with the performance of this Agreement shall be settled through friendly consultation. If any dispute cannot be resolved within fifteen (15) days, any party may submit such dispute to the Shanghai International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules of the Commission then effective. The arbitral tribunal consists of three (3) arbitrators appointed in accordance with the arbitration rules. The applicant shall appoint one arbitrator and the respondent shall appoint one arbitrator. The third arbitrator shall be appointed by the aforesaid two arbitrators or designated by the Shanghai International Economic and Trade Arbitration Commission. The arbitration language is Chinese. The arbitral award is final and binding on all the Parties.
- 9.3 Continuance of performance. During the dispute resolution, each Party shall continue to enjoy other respective rights under this Agreement and continue to perform relevant obligations under this Agreement.

10. MISCELLANEOUS

- 10.1 Adjustment of law. After this Agreement takes effect, if new Laws, regulations, or ordinances are promulgated or the current Laws, regulations, or ordinances are amended or interpreted such that the economic interest of any Party or any plan set forth in this Agreement is affected by the Material Adverse Effect, each Party shall enter into negotiation immediately and make the best effort to maintain the economic interest each Party is entitled to under this Agreement, or shall continue to make adjustment necessary to enforce the affected plans, such adjustment shall not be less than the interest each Party is entitled to or the plan to be executed before such Laws, regulations and ordinances are promulgated, amended or interpreted.
- 10.2 Transfer of this Agreement. Any Party shall not transfer the rights and/or obligations under this Agreement without other Parties' prior written consent. This Agreement shall be binding on each Party of this Agreement, its respective successors and permitted assigns and the benefit shall inure to all such Parties. For the avoidance of doubt, the Capital Contributor has the right to transfer the rights and obligations entitled under this Agreement along with the transfer of the affiliates of the

Capital Contributor and the equities held by it to any third party other than the Target Company's competitors or their affiliates. Such transfer needs no prior consent of other parties and the Target Company, nor is restricted by other parties' preemptive right.

- 10.3** Severally but not jointly. Each Capital Contributor shall have separate rights and obligations with respect to this Agreement, and the obligations and liabilities of each Capital Contributor under this Agreement shall be separate and not joint and several, and each Capital Contributor shall not be deemed to form a joint venture or other affiliated relationship by reason of the execution and performance of this Agreement. Any waiver by any of the Capital Contributor of its rights or the release or termination of this Agreement shall be effective only to the extent of such party's rights and obligations and shall not constitute a waiver by the other Capital Contributors of their rights or a release or termination of this Agreement
- 10.4** Severability. If one or more provisions of this Agreement are declared to be invalid, non-binding or unenforceable, the remaining provisions of this Agreement shall remain in full force and shall be interpreted as closely as possible to the original language of such invalid, non-binding or unenforceable provisions.
- 10.5** Costs and expenses. Costs, expenses and taxes incurred to the Capital Contributor, the Founding Shareholder, the Target Group and other parties for the Capital Increase shall be borne by each of them respectively.
- 10.6** Title. The headings and titles in this Agreement are provided for convenience only and shall not affect the meaning and interpretation of any terms of this Agreement.
- 10.7** Notice. All the notices or other communication under this Agreement shall be in writing and delivered to the address, telephone number, or e-mail below of the following Parties, or the address, telephone number, or e-mail with prior written notice seven (7) days in advance to relevant Parties.

The Founding Shareholder: PIXELWORKS SEMICONDUCTOR TECHNOLOGY COMPANY, LLC.
Address: 16760 SW Upper Boones Ferry Road , Suite 101 , Portland, Oregon, the United States of America.
Contact person: [*]
E-mail: [*]

Target Company: Pixelworks Semiconductor Technology (Shanghai) Co., Ltd.

Address: 17 Floor No.1 Sandhill Plaza 2290 Zuchongzhi Road, Pudong New District, Shanghai, China
Contact person: [*]
Telephone: [*]
E-mail: [*]

MTM : Shanghai MTM Equity Investment Fund Partnership (L.P.)

Address: 3303-3306, S2, BFC, No.600 Zhongshan Road(E-2), Huangpu District, Shanghai
Contact person: [*]
Telephone: [*]
E-mail:[*]

MTM Venture Capital : Qingdao MTM Venture Capital Partnership (L.P.)

Address: 1006, East Wing, Fenghui Times Building, Taipingqiao Street, Xicheng District, Beijing
Contact person: [*]
Telephone: [*]
E-mail:[*]

Hangzhou Canaan Creative Information Technology Limited Address: Room 603-2,6/F,China Resources Building A Shangcheng District,Hangzhou,China

Contact person: [*]
E-mail: [*]

VeriSilicon Microelectronics (Shanghai) Co., Ltd

Address: 20 / F, Zhangjiang Building, 560 Songtao Road, Pudong New area, Shanghai,China

Contact person: [*]
E-mail: [*]

Ting Xin Lan (Shanghai) Management Consulting Partnership (Limited Partnership)

Address: Building C, No. 888, Huanhu West 2nd Road, Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone

Contact person: [*]
E-mail: [*]

Xuan Xin Miao (Shanghai) Management Consulting Partnership (Limited Partnership)

Address: Building C, No. 888, Huanhu West 2nd Road, Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone

Contact person: [*]
E-mail: [*]

Yi Xin Ran (Shanghai) Management Consulting Partnership (Limited Partnership)

Address: Building C, No. 888, Huanhu West 2nd Road, Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone

Contact person: [*]

E-mail: [*]

Chunhe Hong Kong Limited

Address: Rooms 1101-04 38 Gloucester Road Hong Kong

Contact person: [*]

E-mail: [*]

- 10.7** Entire Agreement. This Agreement is the ultimate expression of the agreement of all the Parties and is the complete and exclusive representation of the agreement and understanding of the contemplated transaction of all the Parties in this Agreement. This Agreement supersedes any prior negotiation, agreement and understanding (whether written or oral) regarding the Capital Increase among the Parties. In the event that the provisions concerning the Capital Increase in the Transaction Documents submitted to the registration authorities in the process of the Capital Increase (including but not limited to all types of application documents with respect to the Capital Increase such as the Articles of Association of the Target Company and the shareholder's decisions of the Target Company, whether such documents have been attached to this Agreement) are different from the provisions of this Agreement, each Party acknowledges to follow the provisions of this Agreement.
- 10.8** Counterpart. This Agreement is made in 15 copies. The Target Group holds 6 copies and each of other Parties holds 1 copy. This Agreement shall be made in both Chinese and English. In the case of any discrepancy between the versions of these two languages, the Chinese version shall prevail.

(No text below. *Signature pages follow.*)

Appendix I Restructuring

Scheme of Restructuring

Appendix II Name list of core staff

US Core Executive List

Appendix approval

CERTIFICATION

I, Todd A. DeBonis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pixelworks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2021

By: /s/ Todd A. DeBonis
Todd A. DeBonis
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Elias N. Nader, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pixelworks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2021

By: /s/ Elias N. Nader
Elias N. Nader
Vice President and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Pixelworks, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Todd A. DeBonis, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Todd A. DeBonis
Todd A. DeBonis
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 11, 2021

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Pixelworks, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Elias N. Nader, Vice President, Chief Financial Officer, Secretary and Treasurer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Elias N. Nader
Elias N. Nader
Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: August 11, 2021