AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 11, 2000

REGISTRATION NO. 333-31134

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

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

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

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

COPIES TO:

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

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

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

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

dividend or interest reinvestment plans, check the following box: / /

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

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

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

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)(2)	AMOUNT OF REGISTRATION FEE(3)
Common Stock, $0.001 par value................	6,612,500 shares	$14.00	$92,575,000	$24,440

(1) Includes an aggregate of 862,500 shares of Common Stock that the Underwriters have the option to purchase from the Company to cover over-allotments, if any.

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

(3) Includes $19,800 previously paid by Registrant on February 25, 2000. An additional $4,640 has been paid with this filing.

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

SUBJECT TO COMPLETION, DATED APRIL 11, 2000.

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

PROSPECTUS

5,750,000 SHARES

[LOGO]

COMMON STOCK

$ PER SHARE

We are selling 5,750,000 shares of common stock. The underwriters named in this prospectus may purchase up to 862,500 additional shares of common stock from us to cover over-allotments.

This is an initial public offering of our shares of common stock. We currently expect the initial public offering price to be between $12.00 and $14.00 per share. We have applied to have our shares of common stock included for quotation on the Nasdaq National Market under the symbol "PXLW."

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

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

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

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

Salomon Smith Barney

Deutsche Banc Alex. Brown

SG Cowen

E*OFFERING

, 2000

[INSIDE FRONT COVER]

Description of Inside Cover Art

The graphic is entitled "Pixelworks System-on-a-Chip Semiconductors Enable the Display of Broadband Content." A paragraph of text reads: "Pixelworks system-on-a-chip semiconductors open up the last meter of the broadband pipe by translating video, computer graphics and Web information for display on a wide variety of products including flat panel computer monitors, televisions, multimedia projectors and Internet appliances. We specialize in cost effective system-on-a-chip semiconductors and software for high-speed digital, analog and video signal processing."

The page uses a stylized illustration of a representation of a pipeline with a representation of an ImageProcessor semiconductor linked to various display devices. At the top is a representation of a human eye. At the bottom of the illustration are representations of various forms of visual broadband content, including three illustrated streams identified as PC Graphics, Video and Web content. The pipe is drawn using perspective with the end at the bottom of the page appearing to be distant with the pipe labeled "The Broadband Pipe." At the

opening at the top is an illustration of an ImageProcessor semiconductor with a Pixelworks logo on the top of the chip. Four illustrations of display devices surround the integrated circuit from left to right as follows: LCD monitor, multimedia projector, wide-screen television, and an internet appliance.

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

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

PROSPECTUS SUMMARY

THIS SUMMARY HIGHLIGHTS INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS. SINCE THIS IS ONLY A SUMMARY, IT DOES NOT CONTAIN ALL OF THE INFORMATION THAT MAY BE IMPORTANT TO YOU. YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY AND CONSIDER THE INFORMATION UNDER "RISK FACTORS" AND IN OUR FINANCIAL STATEMENTS AND THE NOTES RELATING TO THESE FINANCIAL STATEMENTS, TOGETHER WITH THE INFORMATION INCLUDED ELSEWHERE IN THIS PROSPECTUS, BEFORE DECIDING WHETHER TO INVEST IN OUR SHARES OF COMMON STOCK. OUR FISCAL YEAR ENDS ON DECEMBER 31. EXCEPT WHERE OTHERWISE NOTED, THE INFORMATION IN THIS PROSPECTUS IS BASED UPON INFORMATION AS OF MARCH 31, 2000.

OUR COMPANY

We design, develop and market semiconductors and software that enable the visual display of broadband content through a wide variety of electronic

devices. Broadband content includes video, computer graphics and visual Web information delivered at high speeds via cable and telecommunications lines to our homes and offices. Enhancing access to broadband information has typically been associated with increasing transmission capacity of these lines over the "last mile," the distance between the telephone and cable company and the user's home or office. We are focused on the point where the information is processed and displayed which we refer to as the "last meter." In the last meter, there is an increasing requirement to rapidly process large amounts of data which is received in a multitude of broadcast and Web formats. Our semiconductors open up the last meter by processing broadband content to provide the best possible image on a wide variety of display products such as flat panel computer monitors, multimedia projectors and high-definition televisions.

Our semiconductors integrate a microprocessor, memory and image processing circuits that function like a computer on a single chip, or system-on-a-chip. We design our products to combine our system-on-a-chip semiconductors with easy to use, feature-rich software. We pioneered our semiconductor designs in technically demanding display products including the most advanced high-resolution flat panel monitors, televisions and multimedia projectors. We have recently extended our product line into high-volume, mass markets such as those for flat panel monitors with features and prices designed for mainstream consumers. In the future, we intend to develop products for new markets including Internet appliances, electronic devices designed solely for accessing and displaying Web information.

To date, we have announced that our semiconductors are used in products marketed by Compaq, Sony and ViewSonic. We have more than 45 customers, including seven out of the top 10 computer monitor brands and 10 out of the top 15 television brands. Our customers have more than 75 products in development or production using our system-on-a-chip semiconductors.

The convergence of television and computer applications is creating new development opportunities for display devices that integrate the ability to display full motion video and support interactive capabilities such as browsing the Web while watching television. This convergence requires an increase in transmission capacity and makes the translation, interpretation and display of large amounts of information more complex. This has resulted in a bottleneck that has limited access to the full visual potential of broadband content. Our system-on-a-chip semiconductors break through this bottleneck by translating and optimizing high-speed video, computer graphics and Web information in real time. Our products can also process analog and digital information ranging from basic computer graphics and broadcast television to the latest theater-quality high-definition television standards.

Our semiconductors integrate as many as 10 separate components into a single chip. These semiconductors, combined with our software, enable our customers to create unique products with substantially more functions and lower overall development costs in highly efficient designs that allow for miniaturization. Our highly integrated semiconductors enable our customers to get their products

into the market more rapidly by significantly reducing the selection, sourcing, testing, integration, debugging, and design when using separate components.

The key benefits of our products include:

- consistent, software-compatible design which can easily be implemented across product lines;

- broad compatibility with a range of video, Web and computer graphics signals and display technologies;

- a large suite of features for the most demanding applications; and

- rapid time to market with lower development costs.

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

The key elements of this strategy are to:

- design and sell increasingly integrated semiconductors;

- deliver highly flexible, software-driven products;

- expand from the most technically demanding markets into high-volume mass markets;

- support and define industry standards; and

- build strategic relationships.

CORPORATE INFORMATION

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

THE OFFERING

Common stock offered........................	5,750,000 shares
Common stock to be outstanding after the offering..................................	35,503,563 shares
Use of proceeds.............................	For working capital and for general corporate purposes. See "Use of Proceeds."
Proposed Nasdaq National Market symbol.......	PXLW

Unless otherwise indicated, all information in this prospectus, including the outstanding share information above, is based on the number of shares outstanding as of March 31, 2000 and:

- gives effect to the automatic conversion of all currently outstanding shares of preferred stock into 19,708,829 shares of common stock immediately prior to the completion of the offering;

- reflects a three-for-two split of our common stock effective as of March 31, 2000;

- excludes 3,010,832 shares of common stock issuable upon the exercise of options outstanding at March 31, 2000 at a weighted average exercise of $1.30 per share;

- excludes 2,637,741 shares of common stock available for issuance under our 1997 stock incentive plan;

- excludes 1,500,000 shares of common stock available for issuance under our 2000 employee stock purchase plan; and

- assumes no exercise of the underwriters' over-allotment option.

SUMMARY FINANCIAL INFORMATION

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

The pro forma numbers in the table give effect to the conversion of all outstanding shares of preferred stock into 19,708,829 shares of common stock immediately prior to the completion of the offering.

The balance sheet data on a pro forma as adjusted basis reflects the sale of 5,750,000 shares of common stock offered by us at an assumed initial offering price of $13.00 per share after deducting the underwriting discount and estimated offering expenses payable by us, and the receipt of net proceeds from this offering.

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31,	YEARS ENDED DECEMBER 31,		THREE MONTHS ENDED MARCH 31,	
	1997	1998	1999	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF OPERATIONS DATA:					
Total revenue	$ 400	$ 978	$12,812	$ 616	$ 7,064
Gross profit	376	956	4,443	453	2,569
Loss from operations	(429)	(1,804)	(5,293)	(978)	(1,245)
Net loss	$ (376)	$(1,603)	$(4,887)	$ (945)	$(4,303)
Net loss per share, basic and					

diluted	$ (0.45)	$ (0.61)	$ (1.53)	$ (0.27)	$ (0.67)
Weighted average shares of common stock outstanding	828	2,660	5,971	3,828	7,887
Pro forma net loss per share, basic and diluted (unaudited)			$ (0.38)		$ (0.17)
Shares used in computing pro forma net loss per share, basic and diluted (unaudited)			24,342		31,427

	AS OF MARCH 31, 2000		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS)		
BALANCE SHEET DATA:			
Cash and cash equivalents	$ 35,410	$35,410	$104,028
Working capital	35,280	35,280	103,898
Total assets	44,396	44,396	113,014
Redeemable convertible preferred stock	53,183	--	--
Total shareholders' equity (deficit)	$(14,175)	$39,008	107,626

RISK FACTORS

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

RISKS RELATED TO OUR OPERATIONS

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

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

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

We incurred net losses of approximately $376,000, $1.6 million and $4.9 million in 1997, 1998 and 1999, respectively, and had an accumulated deficit of approximately $11.2 million as of March 31, 2000. In the future we expect our research and development and selling, general and administrative expenses to increase. In addition, we will incur substantial non-cash charges relating to the amortization of deferred stock compensation. Accordingly, we expect to continue to incur additional operating losses for at least the next 12 months, and these losses may be substantial. Although we have experienced revenue growth in recent quarters, this growth is not necessarily indicative of future operating results, and we cannot assure you that we will be able to sustain the growth in our revenues. We cannot be certain that we will achieve profitability or that, if we do, that we can sustain or increase profitability on a quarterly or annual basis in the future or at all. This may in turn cause the price of our common stock to decline. In addition, if we do not achieve or sustain

profitability in the future, we may be unable to continue our operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BECAUSE OF THE COMPLEX NATURE OF OUR SEMICONDUCTOR DESIGNS AND THE ASSOCIATED MANUFACTURING PROCESS AND THE RAPID EVOLUTION OF OUR CUSTOMERS' PRODUCT DESIGN WE MAY NOT BE ABLE TO DEVELOP NEW PRODUCTS OR PRODUCT ENHANCEMENTS IN A TIMELY MANNER WHICH COULD DECREASE CUSTOMER DEMAND FOR OUR PRODUCTS AND REDUCE OUR REVENUES.

The development of our semiconductors, which incorporate mixed analog and digital signal processing, is highly complex. These complexities require that we employ advanced designs and manufacturing processes that are unproven. Since commencing our operations, we have experienced increased development time and delays in introducing new products. We will not always succeed in developing new products or product enhancements nor do so in a timely manner.

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

- accurate prediction of customer requirements and evolving industry standards, including digital interface and content piracy protection standards;

- development of advanced display technologies and capabilities;

- timely completion and introduction of new product designs;

- use of advanced foundry processes and achievement of high manufacturing yields; and

- market acceptance of the new products.

If we are not able to successfully develop and introduce our products in a timely manner, our business and results of operations will be adversely affected.

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

Our products incorporate software and software development tools. The integration of software adds complexity, may extend our internal development programs and could impact our customers' development schedules. This complexity requires increased coordination between hardware and software development schedules and may increase our operating expenses without a corresponding increase in product revenue. Some customers and potential customers may choose not to use our products because of the additional requirements of implementing our software, preferring to use a product that works with their existing software. This additional level of complexity lengthens the sales cycle and may result in customers selecting competitive products requiring less software integration.

OUR HIGHLY INTEGRATED PRODUCTS ARE DIFFICULT TO MANUFACTURE WITHOUT DEFECTS AND THE EXISTENCE OF DEFECTS IN THE MANUFACTURED PRODUCTS COULD RESULT IN AN INCREASE IN OUR COSTS AND DELAYS IN THE AVAILABILITY OF OUR PRODUCTS.

The manufacture of semiconductors is a complex process and it is often difficult for semiconductor foundries to produce semiconductors free of defects. Because our products are more highly integrated than many other semiconductors and incorporate mixed analog and digital signal processing and embedded memory technology, they are even more difficult to produce without defects.

The ability to manufacture products of acceptable quality depends on both product design and manufacturing process technology. Since defective products can be caused by either design or manufacturing difficulties, identifying quality problems can occur 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. Failure to achieve defect-free products due to their increasing complexity may result in an increase in our cost and delays in the availability of our products.

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

We are and will continue to be dependent on a limited number of large customers and distributors for a substantial portion of our revenue. In 1999 and for the three months ended March 31, 2000, sales to Tokyo Electron Device Limited, our Japanese distributor, represented 54.9% and 64.1% of our total revenue, respectively, and sales to MicroMax International Corporation, our Taiwanese distributor, represented 24.4% and 13.1% of our total revenue, respectively. In 1999 and for the three months

ended March 31, 2000, sales through Tokyo Electron Device to our customer Seiko Epson Corporation. represented 23.3% and 25.3%, of our total revenue, respectively, and sales through Tokyo Electron Device to our customer Hitachi, Ltd represented 11.2% and 12.4% of our total revenue, respectively. Sales through MicroMax to our customer Optoma Corp., formerly known as CTX Opto-Electronics Corporation, an integrator for Compaq Computer Corporation, represented 13.5% and 9.4% of our total revenue for 1999 and the three months ended March 31, 2000, respectively. As a result of this customer and distributor concentration, any one of the following factors could significantly impact our revenues:

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

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

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

THE CONCENTRATION OF OUR ACCOUNTS RECEIVABLE WITH A LIMITED NUMBER OF DISTRIBUTORS EXPOSES US TO INCREASED CREDIT RISK AND COULD SERIOUSLY HARM OUR OPERATING RESULTS AND CASH FLOWS.

As of March 31, 2000, we had accounts receivable from Tokyo Electron Device and MicroMax that represented 69.0% and 14.8%, respectively, of our total accounts receivable. The failure by either of these distributors to pay these accounts receivable would result in a significant expense that would seriously harm our operating results and would reduce our cash flows.

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

Sales outside of the U.S. accounted for 0.0%, 51.1%, 92.8% and 94.7% of our total revenue in 1997, 1998, 1999 and for the three months ended March 31, 2000, respectively. Most of our customers are concentrated in Japan, Korea and Taiwan, with aggregate sales from those three countries accounting for 89.7% and 90.1% of our total revenue during the year ended December 31, 1999 and the three months ended March 31, 2000, respectively. We anticipate that sales outside the U.S. will continue to account for a substantial portion of our revenues in future periods. In addition, customers who incorporate our products into their products sell them outside of the U.S., thereby exposing us indirectly to foreign risks. In addition, all of our products are manufactured outside of the U.S. We are, therefore, subject to many international risks, including:

- increased difficulties in managing international distributors and manufacturers of our products and components due to varying time zones, languages and business customs;

- foreign currency exchange fluctuations such as the Asian financial crisis that occurred in 1998 which caused a devaluation in the currencies of Japan, Taiwan and Korea resulting in an increased cost of procuring our semiconductors;

- potentially adverse tax consequences such as license fee revenue taxes imposed in Japan;

- difficulties regarding timing and availability of export and import licenses, which have limited our ability to freely move demonstration equipment and samples in and out of Asia;

- political and economic instability, particularly in Taiwan and Korea;

- reduced or limited protection of our intellectual property, significant amounts of which are contained in software which is more prone to design piracy;

- increased transaction costs related to sales transactions conducted outside of the U.S. such as charges to secure letters of credit for foreign receivables;

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

- changes in the regulatory environment in Japan, Korea and Taiwan that may

significantly impact purchases of our products by our customers; and

- difficulties in collecting accounts receivable.

OUR DEPENDENCE ON SELLING THROUGH DISTRIBUTORS AND INTEGRATORS INCREASES THE COMPLEXITY OF MANAGING OUR SUPPLY CHAIN AND MAY RESULT IN EXCESS INVENTORY OR INVENTORY SHORTAGES.

Selling through distributors reduces our ability to forecast sales and increases the complexity of our business. Since our distributors are an intermediary between us and the companies using our products, we must rely on our distributors to accurately report inventory levels and production forecasts. This arrangement requires us to manage a more complex supply chain and monitor the financial condition and credit worthiness of our distributors and customers. Our failure to manage one or more of these challenges could result in excess inventory or shortages that could seriously impact our operating revenue or limit the ability of companies using our semiconductors to deliver their products.

DEPENDENCE ON A LIMITED NUMBER OF SOLE-SOURCE, THIRD PARTY MANUFACTURERS FOR OUR PRODUCTS EXPOSES US TO SHORTAGES BASED ON CAPACITY ALLOCATION, PRICE INCREASES WITH LITTLE NOTICE, VOLATILE INVENTORY LEVELS AND DELAYS IN PRODUCT DELIVERY WHICH COULD RESULT IN DELAYS IN SATISFYING CUSTOMER DEMAND, INCREASED COSTS AND LOSS OF REVENUES.

We do not own or operate a semiconductor fabrication facility and we do not have the resources to manufacture our products internally. We rely on Toshiba Corporation and Taiwan Semiconductor Manufacturing Company, third party foundries for wafer fabrication and other contract manufacturers for assembly and electrical testing of our products. Our requirements represent only a small portion of the total production capacity of our contract manufacturers. Our third-party manufacturers have in the past reallocated capacity to other customers even during periods of high demand for our products. We expect that this will occur in the future. We do not have a long-term supply contract with any of our contract manufacturers, and they are not obligated to supply us with products for any specific period, in any specific quantity or at any specific price, except as may be provided in a particular purchase order. From time to time our third-party manufacturers increase prices charged to manufacture our products with little notice. This requires us to either increase the price we charge for our products or suffer a decrease in our gross margins. Currently, this risk is particularly applicable because worldwide semiconductor manufacturing capacity is at full production. We try not to maintain substantial inventories of products, but need to order products long before we have firm purchase orders for those products which could result in excess inventory or inventory shortages. None of our products is currently manufactured by more than one supplier, and we expect that all of our products will continue to be manufactured by a single third-party manufacturer. This means that a disruption in production by a single third-party manufacturer would immediately result in our inability to deliver our products. For example, in September 1999 we experienced a delay in delivery of a prototype of a product caused by the shutdown of our third-party manufacturer's facility due to an earthquake.

If we are unable to obtain our products from manufacturers on schedule, our ability to satisfy customer demand will be harmed, and revenue from the sale of products may be lost or delayed. If orders for our products are canceled, expected revenues will not be realized. In addition, if the price

charged by our third-party manufacturers increases we will be required to increase our prices, which could harm our competitiveness, or suffer declines in

our gross margin.

WE INTEND TO ASSUME MORE RESPONSIBILITY FOR THE MANUFACTURING OF OUR PRODUCTS WHICH, IF NOT IMPLEMENTED SUCCESSFULLY, COULD RESULT IN INCREASED COSTS OR A REDUCTION OR LOSS OF REVENUE.

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

WE ARE DEPENDENT ON OUR FOUNDRIES TO IMPLEMENT COMPLEX SEMICONDUCTOR TECHNOLOGIES WHICH COULD ADVERSELY AFFECT OUR OPERATIONS IF THOSE TECHNOLOGIES ARE NOT AVAILABLE, 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. However, 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 and adversely affected if advanced manufacturing processes are unavailable to us, substantially delayed or inefficiently implemented.

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

Our products require manufacturing with state-of-the-art fabrication equipment and techniques. Because the lead time needed to establish a relationship with a new contract manufacturer is at least six months, and the estimated time for us to adapt a product's design to a particular contract manufacturer's processes is at least four months, there is no readily available alternative source of supply for any specific product. This could cause significant delays in shipping products, which may result in lost revenues and damaged customer relationships.

OUR FUTURE SUCCESS DEPENDS UPON THE CONTINUED SERVICES OF KEY PERSONNEL, MANY OF WHOM WOULD BE DIFFICULT TO REPLACE AND THE LOSS OF ONE OR MORE OF THESE EMPLOYEES COULD SERIOUSLY HARM OUR BUSINESS BY DELAYING PRODUCT DEVELOPMENT.

Our future success depends upon the continued services of our executive officers, key hardware and software engineers, and sales, marketing and support personnel, many of whom would be difficult to replace. The loss of one or more of these employees could seriously harm our business. Particularly, because of the highly technical nature of our business, the loss of key engineering personnel could delay product introductions and significantly impair our ability to successfully create future products. In particular, the loss of the services of Allen Alley, our President, Chief Executive Officer and Chairman, Michael West, our Vice President, Technology, or Robert Greenberg, our Vice President, Product Development and Customer Support, could materially and adversely affect us. We are currently planning to hire a significant number of additional employees this year and in future periods, and we believe our success depends, in large part, upon our ability to identify, attract and retain qualified

hardware and software engineers, and sales, marketing, finance and managerial personnel. Competition for talented personnel is intense and we may not be able to retain our key personnel or identify, attract or retain other highly qualified personnel in the future. We have experienced, and may continue to experience, difficulty in hiring and retaining candidates with appropriate qualifications. If we do not succeed in hiring and retaining candidates with appropriate qualifications, our product development efforts, revenues and business could be seriously harmed.

BECAUSE WE DO NOT HAVE LONG-TERM COMMITMENTS FROM OUR CUSTOMERS, AND PLAN PURCHASES BASED ON ESTIMATES OF CUSTOMER DEMAND WHICH MAY BE INACCURATE, WE MUST CONTRACT FOR THE MANUFACTURE OF OUR PRODUCTS BASED ON THOSE POTENTIALLY INACCURATE ESTIMATES.

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

DEVELOPMENT ARRANGEMENTS MAY CAUSE US TO INCUR SUBSTANTIAL OPERATING EXPENSES WITHOUT THE GUARANTEE OF ANY ASSOCIATED REVENUE OR FAR IN ADVANCE OF REVENUE.

We have development arrangements with customers such as Compaq and ViewSonic and other parties such as Intel Corporation that consume large amounts of engineering resources far in advance of product revenue. Our work under these arrangements will be technically challenging and may require deliverables on an accelerated basis. For example, under our arrangement with Intel we are required to deliver specifications for a semiconductor shortly after entering into the arrangement. These arrangements place considerable demands on our limited resources, particularly on our most senior engineering talent, and may not result in revenue for twelve to eighteen months, if at all. In addition, allocating significant resources to these arrangements may detract from or delay the completion of other important development projects. Any of these development agreements could be canceled at any time without notice. These factors could have a material and adverse effect on our long term business and results of operations.

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

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

of our products by our customers will not exceed six months. Because of this lengthy development cycle, we will experience

delays between the time we incur expenditures for research and development, sales and marketing, inventory levels and the time we generate revenues, if any, from these expenditures.

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

Shortages of components and other materials that are critical to the design and manufacture of our customers' products could limit our sales. These components include liquid crystal display panels and other display components, analog-to-digital converters, digital receivers and video decoders. During 1999, companies that used our products experienced delays in the availability of key components from other suppliers which, in turn, threatened a delay in demand for the products that we supplied to them.

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

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

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

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

WE MAY NOT BE ABLE TO RESPOND TO THE RAPID TECHNOLOGICAL CHANGE IN THE MARKETS IN WHICH WE COMPETE, OR WE MAY NOT BE ABLE TO COMPLY WITH INDUSTRY STANDARDS IN THE FUTURE MAKING OUR PRODUCTS LESS DESIRABLE OR OBSOLETE.

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. Recent examples of changing industry standards include the introduction of high-definition television, or HDTV, new digital receivers and displays with resolutions that have required us to accelerate development of new products to meet these new standards.

OUR SOFTWARE DEVELOPMENT TOOLS MAY BE INCOMPATIBLE WITH INDUSTRY STANDARDS AND CHALLENGING TO IMPLEMENT, WHICH COULD SLOW PRODUCT DEVELOPMENT OR CAUSE US TO LOSE CUSTOMERS AND DESIGN WINS.

Our existing products incorporate complex software tools designed to help customers bring products into production. Software development is a complex

process and we are dependent on software development languages and operating systems from vendors which may compromise our ability to design software in a timely manner. Also, software development is a volatile market and new software languages are introduced to the market that may be incompatible with our existing systems and tools. New software development languages may not be compatible with our own requiring significant engineering efforts to migrate our existing systems in order to be compatible with those new languages. Our current products are developed using Visual C, a popular software development

language. However, existing or new software development tools could make our current products obsolete or hard to use. Software development disruptions could slow our product development or cause us to lose customers and design wins.

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

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

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

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

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

We may become subject to claims involving patents or other intellectual property rights. For example, we were recently notified by InFocus Systems, Inc. that InFocus believed we were infringing patents held by InFocus that relate to methods and apparatus for automatic pixel clock phase and frequency correction. While we do not believe we are infringing these patents, in order to avoid the business uncertainty and diversion of management attention associated with contesting this assertion, we have entered into a license agreement with InFocus granting us the right to use the technology covered by the InFocus patents in exchange for 156,863 shares of our Series D preferred stock and $2.4 million in cash payable in four quarterly installments commencing in March 2000. Under this

license agreement, we also received a release of any claims that InFocus may have against us relating to these patents. Intellectual property claims could subject us to significant liability for damages and invalidate our proprietary rights. In addition, intellectual property claims may be brought against customers that incorporate our products in the design of their own products. These claims, regardless of their success or merit and regardless of whether we are named as defendants in a lawsuit, would likely be time-consuming and expensive to resolve and would divert the time and attention of

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

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

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

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

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

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

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

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

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

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

- incur debt;

- assume liabilities;

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

- incur large and immediate write-offs.

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

- problems combining the purchased operations, technologies or products;

- unanticipated costs;

- diversion of management's attention from our core business;

- adverse effects on existing business relationships with customers;

- risks associated with entering markets in which we have no or limited prior experience; and

- potential loss of key employees, particularly those of the acquired organizations.

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

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

Our ability to successfully market and sell our products in a rapidly evolving market requires effective planning and management processes. We continue to increase the scope of our operations domestically and internationally and have increased our headcount substantially. We grew from 22 employees on January 1, 1999, to 89 employees on March 31, 2000. In addition, we are currently planning to hire a significant number of additional employees this year. Our past growth, and our expected future growth, places a significant strain on our management systems and resources including our financial and managerial controls, reporting systems and procedures. To manage our growth effectively, we must implement and improve operational and financial systems, train and manage our employee base, attract and retain qualified personnel with relevant experience. We must also manage multiple relationships with customers, business partners, contract manufacturers, suppliers and other third parties. Moreover, we will spend substantial amounts of time and money in connection with our rapid growth and may have unexpected costs. Our systems, procedures or controls may not be adequate to support our operations and we may not be able to expand quickly enough to exploit potential market opportunities. While we have not, to date, suffered any significant adverse consequences due to our growth, if we do not continue to manage growth effectively our business would be seriously harmed.

RISKS RELATED TO OUR INDUSTRY

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

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

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

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

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

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

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

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

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

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

in our markets. Our competitors may develop advanced technologies enabling them to offer more cost-effective and higher quality semiconductors to our customers than those offered by us. Increased competition could harm our business, financial condition and results of operations by, for example, increasing pressure on our profit

margin or causing us to lose sales opportunities. We cannot assure you that we can compete successfully against current or potential competitors.

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

If the emerging market for Internet appliances does not develop or does not evolve fast enough to support rapid market acceptance of our products, our business, financial condition and results of operations will be materially and adversely affected. The Internet appliance market includes netTVs, screenphones, e-mail terminals, Web terminals and tablets. Our success will depend on our ability to achieve design wins with customers developing new products and enhanced products for the Internet appliance market and their ability to successfully introduce and promote these products. There can be no assurance that the Internet appliance market will develop to the extent or in the timeframes necessary to support expansion of our business. We anticipate that Internet appliance products will be generally based on industry standards, which are continually evolving. The emergence of new industry standards could render our products or our customers products unmarketable or obsolete and we may incur substantial unanticipated costs to comply with any new standards. Moreover, our past sales have resulted, to a significant extent, from our ability to anticipate changes in technology and industry standards and to develop and introduce new and enhanced products addressing changes within our industry. Our continued ability to adapt to industry changes and to anticipate future standards, and the rate of adoption and acceptance of those standards, will be a significant factor in maintaining or improving our competitive position and our prospects for growth. There can be no assurance that we will be able to anticipate the evolving standards in the semiconductor industry and, in particular, the applications in the Internet appliance market, or that we will be able to successfully develop and introduce new products into this market.

THE CYCLICAL NATURE OF THE SEMICONDUCTOR INDUSTRY MAY LEAD TO SIGNIFICANT VARIANCES IN THE DEMAND FOR OUR PRODUCTS 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, during this time, the industry has experienced significant fluctuations in anticipation of changes in general economic conditions, including economic conditions in Asia. The cyclical nature of the semiconductor industry has led to significant variances in product demand and production capacity. It has also accelerated erosion of average selling prices per unit. We may experience periodic fluctuations in our future financial results because of changes in industry-wide conditions.

RISKS RELATING TO THE OFFERING

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

We will have approximately 35,503,563 shares of common stock outstanding immediately after the offering. The shares of our common stock sold in the offering will be freely transferable. Additional shares may be sold in the public market to the extent permitted by Rule 144 or exemptions under the Securities Act of 1933. Lock-up agreements executed by our officers, directors and existing shareholders limit the number of shares of our common stock that may be sold in the public market for periods of up to 180 days. However, Salomon Smith Barney may, in its sole discretion and at any time, release all or some portion of the securities subject to the lock-up agreements. The market price of

shares of our common stock could decline as a result of sales of a large number of shares of our common stock in the market after the offering, or the perception that significant sales could occur. These factors also could make it more difficult for us to raise funds through future offerings of our common stock.

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

The initial public offering price of shares of our common stock will be substantially higher than the net tangible book value per share of the outstanding common stock immediately after this offering. Therefore, based upon an assumed initial public offering price of $13.00 per share, if you purchase our common stock in this offering, you will incur substantial and immediate dilution of approximately $10.02 per share. If additional shares are sold by the underwriters following the exercise of their over-allotment option, or if outstanding options to purchase shares of our common stock are exercised, there will be further dilution of your investment. See "Dilution."

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

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

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

Immediately after the offering, our executive officers, directors and other principal shareholders will, in the aggregate, beneficially own 22,263,145 shares or approximately 62% of our outstanding common stock, assuming the exercise of all options and warrants held by them. Although these shareholders will not have majority control, they currently have, and likely will continue to have, significant influence with respect to the election of our directors and approval or disapproval of our significant corporate actions. This influence over our affairs might be adverse to the interest of our shareholders. In addition, the voting power of these shareholders could have the effect of delaying or preventing a change in control of our business or otherwise discouraging a potential acquirer from attempting to obtain control of us, which could prevent our shareholders from realizing a premium over the market price for their common stock.

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

Prior to this offering, there has been no public market for our common

stock. The initial public offering price will be determined through negotiations between the underwriters and us, and may not be indicative of the price that will prevail in the open market after this offering. An active trading market for our common stock may not develop or be sustained after this offering. You may not be able to sell your shares of our common stock at or above the initial public offering price due to a number of factors, including:

- actual or anticipated fluctuations in our operating results;

- changes in expectations as to our future financial performance;

- changes in financial estimates of securities analysts;

- announcements by us or our competitors of technological innovations, design wins, contracts, standards or acquisitions;

- the operating and stock price performance of other comparable companies;

- changes in market valuations of other technology companies; and

- inconsistent trading volume levels of our common stock.

In particular, the stock prices of technology companies like us have been highly volatile recently. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. Market fluctuations as well as general economic, political and market conditions including recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our common stock. Therefore, the price of our common stock may decline, and the value of your investment may be reduced regardless of our performance.

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

USE OF PROCEEDS

Based on an assumed initial public offering price of $13.00 per share, our net proceeds from the sale of the 5.75 million shares of common stock that we are offering will be approximately $68.6 million after deducting the underwriting discount and estimated expenses payable by us in connection with this offering. If the underwriters exercise their over-allotment option in full, our net proceeds will be approximately $79.0 million.

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

DIVIDEND POLICY

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

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2000:

- on an actual basis;

- on a pro forma basis after giving effect to the automatic conversion of all outstanding shares of preferred stock into 19,708,829 shares of common stock immediately prior to the completion of the offering; and

- on a pro forma as adjusted basis, after giving effect to the sale of 5,750,000 shares of common stock offered by us at an assumed initial public offering price of $13.00 per share after deducting the underwriting discount and estimated offering expenses payable by us, and the receipt of net proceeds from this offering.

	MARCH 31, 2000		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS, EXCEPT SHARE DATA)		
Cash and cash equivalents..................................	$ 35,410	$ 35,410	$104,028
Redeemable convertible preferred stock, $.001 par value: Authorized 16,100,000 shares; issued and outstanding 13,139,219 shares (actual); no shares (pro forma and as adjusted)..	53,183	--	--
Common stock, $.001 par value: Authorized 35,000,000 shares; issued and outstanding 10,044,734 shares (actual); 29,753,563 shares (pro forma); 35,503,563 shares (as adjusted)................	--	53,183	121,801
Deferred stock compensation................................	(2,807)	(2,807)	(2,807)
Note receivable for common stock...........................	(199)	(199)	(199)

Accumulated deficit	(11,169)	(11,169)	(11,169)
Total shareholders' equity (deficit)	(14,175)	39,008	107,626
Total capitalization	$ 39,008	$ 39,008	$107,626

Common stock excludes:

- 3,010,832 shares of common stock issuable upon the exercise of options outstanding at March 31, 2000 at a weighted average exercise price of $1.30 per share;

- 2,637,741 shares of common stock available for issuance under our 1997 stock incentive plan; and

- 1,500,000 shares of common stock available for issuance under our 2000 employee stock purchase plan.

DILUTION

Our pro forma net tangible book value as of March 31, 2000 was approximately $37.3 million or approximately $1.25 per share. Pro forma net tangible book value per share represents pro forma tangible assets less total liabilities, divided by our pro forma number of outstanding shares of common stock after giving effect to, on a pro forma basis, the automatic conversion of all currently outstanding shares of preferred stock into 19,708,829 shares of common stock immediately prior to the completion of the offering.

Without taking into account any changes in pro forma net tangible book value per share after March 31, 2000, other than to give effect to the sale of the shares of common stock in this offering at an assumed initial public offering price of $13.00 per share after deducting the underwriting discount and estimated expenses payable by us and the receipt of the net proceeds of the sale, the pro forma net tangible book value as of March 31, 2000 would have been approximately $105.9 million or approximately $2.98 per share. This represents an immediate increase in pro forma net tangible book value per share of $1.73 to existing shareholders and an immediate dilution of $10.02 per share to new investors. The following table sets forth this per share dilution:

Assumed initial public offering price per share		$13.00
Pro forma net tangible book value per share at March 31, 2000	$ 1.25	
Increase in pro forma net tangible book value per share attributable to this offering	1.73	
Pro forma net tangible book value per share after the offering		2.98
Dilution in pro forma net tangible book value per share to new investors		$10.02

The following table summarizes, on a pro forma basis as of March 31, 2000, the differences between the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid by the existing shareholders and by the new investors in this offering, before deducting the underwriting discounts and commissions and estimated offering expenses payable by us, at an assumed initial public offering price of $13.00 per share.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PAID PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing shareholders	29,753,561	83.8%	$49,489,264	39.8%	$ 1.66
New investors	5,750,000	16.2	74,750,000	60.2	13.00
Total	35,503,561	100.0%	124,239,264	100.0%	

The foregoing discussion and table excludes:

- 3,010,832 shares of common stock issuable upon the exercise of options outstanding at March 31, 2000 at a weighted average exercise price of $1.30 per share;

- 2,637,741 shares of common stock available for issuance under our 1997 stock incentive plan; and

- 1,500,000 shares of common stock available for issuance under our 2000 employee share purchase plan.

If all options outstanding at March 31, 2000 were exercised, the pro forma net tangible book value per share immediately after completion of the offering would be $2.85, which represents an immediate dilution in net tangible book value per share of $10.15 to purchasers of shares of common stock in the offering. See "Management--Employee Benefit Plans" and the notes to our financial statements for more information on our option plans.

SELECTED FINANCIAL DATA

The following selected financial data should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements, including the related notes found elsewhere in this prospectus. The statement of operations data for the period from January 16, 1997 through December 31, 1997 and years ended December 31, 1998 and 1999 and the balance sheet data as of December 31, 1998 and 1999 are derived from the audited financial statements of Pixelworks included elsewhere in this prospectus, which have been audited by KPMG LLP, independent auditors. The audited balance sheet data as of December 31, 1997 is derived from the audited financial statements not included in this Prospectus. The statement of operations data for the periods ended March 31, 1999 and 2000 and the balance sheet data as of March 31, 2000, are derived from unaudited interim financial statements included in this prospectus. The unaudited financial statements have been prepared on substantially the same basis as the audited financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair

presentation of the results of operations for these periods. Historical results are not necessarily indicative of the results to be expected in the future, and results of interim periods are not necessarily indicative of results for any future period.

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31,	YEARS ENDED DECEMBER 31,		THREE MONTHS ENDED MARCH 31,	
	1997	1998	1999	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF OPERATIONS DATA:					
Revenue:					
Product revenue, net	$ 25	$ 105	$12,647	$ 451	$ 7,064
Commissions	375	373	65	65	--
Licensing and development fees	--	500	100	100	--
Total revenue	$ 400	$ 978	$12,812	$ 616	$ 7,064
Cost of revenue	24	22	8,369	163	4,495
Gross profit	376	956	4,443	453	2,569
Operating expenses:					
Research and development	215	1,446	4,805	823	1,690
Selling, general and administrative	590	1,314	4,366	604	1,784
Amortization of deferred stock compensation	--	--	565	4	340
Total operating expenses	805	2,760	9,736	1,431	3,814
Loss from operations	(429)	(1,804)	(5,293)	(978)	(1,245)
Interest and other income (expense), net	53	215	409	36	(3,058)
Loss before income taxes	(376)	(1,589)	(4,884)	(942)	(4,303)
Income taxes	--	14	3	3	--
Net loss	(376)	(1,603)	(4,887)	(945)	(4,303)
Accretion of preferred stock redemption preference	--	(10)	(4,278)	(98)	(954)
Net loss attributable to common shareholders	$ (376)	$(1,613)	$(9,165)	$(1,043)	$(5,257)
Historical loss per share:					
Basic and diluted	$ (0.45)	$ (0.61)	$ (1.53)	$ (0.27)	$ (0.67)
Weighted average shares, basic and diluted	828	2,660	5,971	3,828	7,887
Pro forma loss per share (unaudited):					
Basic and diluted			$ (0.38)		$ (0.17)
Shares used in computing basic and diluted			24,342		31,427

	AS OF DECEMBER 31,			MARCH 31,
	1997	1998	1999	2000
	(IN THOUSANDS)			
BALANCE SHEET DATA:				
Cash and cash equivalents	$ 367	$ 6,119	$12,199	$35,410
Working capital	568	4,427	12,770	35,280
Total assets	1,006	7,676	18,394	44,396
Long-term obligations, net of current portion	--	--	591	--
Redeemable convertible preferred stock	1,216	7,755	23,701	53,183
Total shareholders' deficit	(366)	(1,908)	(9,295)	(14,175)

The pro forma statement of operations data presented above reflects the automatic conversion upon the closing of the offering of all outstanding shares of preferred stock into 19,708,829 shares of common stock.

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

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

OVERVIEW

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

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

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

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

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

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

Significant portions of our products are sold overseas. Sales outside the U.S. accounted for 92.8% of total revenue in 1999 and 94.7% of total revenue for the three months ended March 31, 2000. Our end customers, branded manufacturers and integrators, incorporate our products into systems that are sold worldwide. All revenue to date has been denominated in U.S. dollars. See "Risk Factors--International sales account for a significant portion of our revenues, and if we do not successfully address the risks associated with our international operations, our revenues could decrease."

Product gross profit fluctuated over the past several quarters due to a change in mix from low volume chip and evaluation board samples to high volume semiconductor production. We expect average selling prices to decrease as we move to higher volume, lower cost products. Additionally there will be some

average selling price reductions for our existing products due to the highly competitive nature of the semiconductor industry. We anticipate that our product gross profit may fluctuate quarter to quarter

because we sell multiple products with varying margins and the mix of products sold from period to period will change. Our gross profit will also be affected by our move from a turnkey application specific integrated circuit, or ASIC, business model to a customer owned tooling, or COT, business model which should, if executed successfully, offset some of the negative effect on gross margins resulting from reductions in average selling prices. See "Risk Factors--Intense competition in our markets may reduce sales of our products, reduce our market share, decrease our gross profit and increase losses."

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

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

RESULTS OF OPERATIONS

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

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31,	YEARS ENDED DECEMBER 31,		THREE MONTHS ENDED MARCH 31,	
	1997	1998	1999	1999	2000
Revenue:					
Product revenue, net....	6.2%	10.8%	98.7%	73.2%	100.0%
Commissions............	93.8	38.1	0.5	10.6	0.0
Licensing and development fees......	0.0	51.1	0.8	16.2	0.0
Total revenue............	100.0	100.0	100.0	100.0	100.0
Cost of revenue..........	6.0	2.2	65.3	26.5	63.6
Gross profit.............	94.0	97.8	34.7	73.5	36.4
Operating expenses:					

Research and development	53.8	147.8	37.5	133.6	23.9
Selling, general and administrative	147.5	134.4	34.1	98.0	25.3
Amortization of deferred stock compensation	0.0	0.0	4.4	0.7	4.8
Total operating expense	201.3	282.2	76.0	232.3	54.0
Loss from operations	(107.3)	(184.4)	(41.3)	(158.8)	(17.6)
Interest and other income (expense), net	13.3	21.9	3.2	5.9	(43.3)
Loss before income taxes	(94.0)	(162.5)	(38.1)	(152.9)	(60.9)
Income taxes	0.0	1.4	0.0	0.5	0.0
Net loss	(94.0)%	(163.9)%	(38.1)%	(153.4)%	(60.9)%

THREE MONTHS ENDED MARCH 31, 2000 COMPARED TO THREE MONTHS ENDED MARCH 31, 1999

PRODUCT REVENUE. Product revenue increased from $451,000 for the three months ended March 31, 1999 to $7.1 million for the three months ended March 31, 2000. The $6.6 million dollar increase in product revenue was related to increased volume shipments of ImageProcessor semiconductors.

COMMISSIONS REVENUE. Commissions revenue decreased from $65,000 for the three months ended March 31, 1999 to $0 for the three months ended March 31, 2000. Commissions revenue for the three months ended March 31, 1999 was derived from an agreement with Fujitsu General America, Inc. to sell their plasma display products in the United States.

LICENSING AND DEVELOPMENT FEES. Licensing and development fees decreased from $100,000 for the three months ended March 31, 1999 to $0 for the three months ended March 31, 2000. Licensing and development fees from the three months ended March 31, 1999 resulted from a 1998 agreement with a major customer to develop a product for exclusive use by the customer for front projection applications.

GROSS PROFIT. Gross profit was 73.5% for the period ended March 31, 1999 compared to 36.4% for the period ended March 31, 2000. Gross profit was significantly higher in the first quarter of 1999 as a result of 26.8% of total revenue coming from commissions revenue and licensing and development fees, which have no associated cost of sales. Gross profit decreased to 36.4% in the first quarter of 2000 due to the increase of product revenue as a percent of total revenue, which have associated cost of sales.

RESEARCH AND DEVELOPMENT. Research and development expense was $823,000, or 133.6% of total revenue for the three months ended March 31, 1999 compared to $1.7 million, or 23.9% of revenue for the three months ended March 31, 2000. The increase of $867,000 resulted primarily from a $505,000 increase in compensation expenses related to an increase in personnel and a $111,000 increase in expenses related to engineering consulting services.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense was $604,000, or 98.0% of total revenue for the three months ended March 31, 1999 as compared to $1.8 million, or 25.3% of total revenue. Most of the $1.2 million increase resulted from a $713,000 increase in compensation expenses related to an increase in personnel, $94,000 increase in accounting and

legal expenses, $86,000 increase in travel expenses and $62,000 increase in sales commissions.

AMORTIZATION OF DEFERRED STOCK COMPENSATION. Stock compensation expense increased $336,000 to $340,000 for the three months ended March 31, 2000 from $4,000 for the three months ended March 31, 1999. The increase in stock compensation expense is the result of the issuance of additional stock options to employees at a deemed discount from the fair value of the common stock on the date of grant through March 31, 2000. At March 31, 2000, the amount of employee unearned compensation was $2.8 million. The deferred balance will be amortized on an accelerated method as the employee provides services over the vesting period of the options.

INTEREST AND OTHER INCOME & EXPENSE. Interest and other income and expense consists of interest income, interest expense and other non-operating income and expense. Interest and other income and expense, net was $36,000 of income and $3.1 million expense for the three months ended March 31, 1999 and March 31, 2000, respectively. The $3.1 million of increase in expense is attributable to $3.3 million in other expense associated with the patent settlement between Pixelworks, Inc. and InFocus Systems, Inc., in February 2000. This increase was partially offset by the increased interest income of $231,000 related to higher average cash balances.

PROVISION FOR INCOME TAXES. During the three months ended March 31, 1999 we had approximately $3,000 of income tax expenses related to foreign taxes on license fee revenue. We recorded no provision for income tax expense during the three months ended March 31, 2000.

YEAR ENDED DECEMBER 31, 1997, 1998 AND 1999

PRODUCT REVENUE. Product revenue increased from $25,000 in 1997 to $105,000 in 1998, and increased to $12.6 million in 1999. Revenues in 1997 and 1998 were from the sale of stands and cases for flat screen televisions. In December 1998, we shipped our first ImageProcessor semiconductors. Two additional, lower cost products, the PW264 ImageProcessor semiconductor and the PW164 ImageProcessor semiconductor, were introduced in April 1999 and August 1999, respectively, to broaden our addressable market. The increase in revenue from 1998 to 1999 resulted from the introduction of these ImageProcessor semiconductors.

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

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

into licensing or development arrangements in future periods, we would recognize licensing and development fees in those periods.

GROSS PROFIT. Gross profit was 94.0% in 1997 and 97.8% in 1998 as a majority of revenues came from commissions revenue and licensing and development fees which have no associated cost of sales. Gross profit decreased from 97.8% in 1998 to 34.7% in 1999 as a result of the increase of product revenue as a percent of total revenue. Product sales which have associated cost of sales increased from 10.8% in 1998 to 98.7% in 1999.

RESEARCH AND DEVELOPMENT. Research and development expense was $215,000, or 53.8% of total revenue for 1997, $1.4 million, or 147.8% of total revenue in 1998, and $4.8 million, or 37.5% of total revenue for 1999. Most of the $1.2 million increase from 1997 to 1998 resulted from an increase of $555,000 in compensation expenses related to an increase in personnel, an increase of $344,000 in depreciation expense from capital expenditures and an increase of $187,000 in engineering professional services. Most of the $3.4 million increase from 1998 to 1999 resulted from an increase of $2.0 million in compensation expenses related to an increase in personnel, an increase of $761,000 in depreciation expense and an increase of $432,000 in engineering professional services. Although absolute expenses increased from 1998 to 1999, research and development expenses, as a percentage of total revenue, declined. We believe that continued investment in research and development is critical to our strategic objectives and we expect these expenses to increase in the future.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense was $590,000, or 147.5% of total revenue for 1997, $1.3 million, or 134.4% of total revenue for 1998, and $4.4 million or 34.1% for 1999. A majority of the $724,000 increase from 1997 to 1998 resulted from an increase of $309,000 in compensation expenses related to an increase in personnel and an increase of $97,000 in professional service expense. Most of the $3.1 million increase from 1998 to 1999 resulted from a $1.7 million increase in personnel expenses, an increase of $312,000 in travel expenses, an increase of $272,000 in professional services and an increase of $161,000 in reserves for doubtful accounts. We expect selling, general and administrative expenses to increase in the future as we add personnel, incur additional costs to support continued growth and implement additional internal systems to support a public company.

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

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

PROVISION FOR INCOME TAXES. We recorded no provision for income tax in 1997. We recorded income tax expense of $14,000 and $3,000 for 1998 and 1999, respectively, related to foreign taxes on license fee revenue. As of December 31, 1999 we had approximately $5 million of net operating loss carryforwards to offset against future taxable income. The carryforwards expire on various dates through 2018, if not used. Utilization of net operating losses is subject to an annual limitation due to the changes in ownership provisions of the Internal Revenue Code of 1986 and similar state provisions. We are in a

deferred tax asset position, which has been fully reserved. We will continue to provide a valuation allowance for our deferred tax assets until it becomes more likely than not, in our assessment, that our deferred tax assets will be realized.

QUARTERLY RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED				
	MAR. 31, 1999	JUNE 30, 1999	SEPT. 30, 1999	DEC. 31, 1999	MAR. 31, 2000
			(IN THOUSANDS)		
STATEMENT OF OPERATIONS DATA:					
Revenue:					
Product revenue, net	$ 451	$ 1,849	$ 4,289	$ 6,058	$ 7,064
Commissions	65	--	--	--	--
Licensing and development fees	100	--	--	--	--
Total revenue	616	1,849	4,289	6,058	7,064
Cost of revenue	163	1,318	2,850	4,038	4,495
Gross profit	453	531	1,439	2,020	2,569
Operating expenses:					
Research and development	823	1,052	1,342	1,588	1,690
Selling, general and administrative	604	915	1,270	1,577	1,784
Amortization of deferred stock compensation	4	29	140	392	340
Total operating expenses	1,431	1,996	2,752	3,557	3,814
Loss from operations	(978)	(1,465)	(1,313)	(1,537)	(1,245)
Interest and other income (expense), net	36	74	157	142	(3,058)
Loss before income taxes	(942)	(1,391)	(1,156)	(1,395)	(4,303)
Income taxes	3	--	--	--	--
Net loss	$ (945)	$(1,391)	$(1,156)	$(1,395)	$(4,303)

	THREE MONTHS ENDED				
	MAR. 31, 1999	JUNE 30, 1999	SEPT. 30, 1999	DEC. 31, 1999	MAR. 31, 2000
Revenue:					
Product revenue, net	73.2 %	100.0 %	100.0 %	100.0 %	100.0 %
Commissions	10.6	0.0	0.0	0.0	0.0
Licensing and development fees	16.2	0.0	0.0	0.0	0.0
Total revenue	100.0	100.0	100.0	100.0	100.0
Cost of revenue	26.5	71.3	66.4	66.7	63.6
Gross profit	73.5	28.7	33.6	33.3	36.4
Operating expenses:					
Research and development	133.6	56.9	31.3	26.2	23.9
Selling, general and administrative	98.0	49.5	29.6	26.0	25.3

Amortization of deferred stock compensation	0.7	1.6	3.3	6.5	4.8
Total operating expenses	232.3	108.0	64.2	58.7	54.0
Loss from operations	(158.8)	(79.2)	(30.6)	(25.4)	(17.6)
Interest and other income (expense), net	5.9	4.0	3.6	2.4	(43.3)
Loss before income taxes	(152.9)	(75.2)	(27.0)	(23.0)	(60.9)
Income taxes	0.5	0.0	0.0	0.0	0.0
Net loss	(153.4)%	(75.2)%	(27.0)%	(23.0)%	(60.9)%

TOTAL REVENUE. Quarterly revenue increased in each quarter from $616,000 in the quarter ended March 31, 1999 to $7.1 million in the quarter ended March 31, 2000. The increase in revenue resulted from increasing unit shipments of the PW364 ImageProcessor semiconductor which began shipping in December 1998 and the introduction of two new products, the PW264 ImageProcessor semiconductor and PW164 ImageProcessor semiconductor, which began shipping in April and August, respectively.

GROSS PROFIT. As a percentage of total revenue, gross profit decreased from 73.5% in the first quarter of 1999 to 28.7% in the second quarter of 1999 as a result of a decrease in commissions revenue and licensing and development fees, which have higher gross profits than product revenues. As a percentage of total revenue, gross profit increased from 28.7% in the second quarter to 33.6% and 33.3% in the third and fourth quarters of 1999, respectively and 36.4% in the first quarter of 2000. This increase was a result of a change in product mix which included the introduction of a new product, the PW164 ImageProcessor semiconductor, which began shipping in August.

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have financed operations through private placements of our preferred convertible stock. Through March 31, 2000, gross proceeds from private placements of preferred stock and the exercise of common stock purchase warrants issued to investors totaled approximately $47.3 million. To a lesser extent, we have financed operations through accounts payable and equipment lines of credit, and the exercise of options and warrants to purchase common stock.

As of March 31, 2000, we had cash and cash equivalents of $35.4 million, an increase of $23.2 million from cash and cash equivalents held as of December 31, 1999. The increase was due to the sale of our preferred stock, which raised $26.5 million, offset by cash used in operating activities and purchases of property and equipment and other assets. In addition, we paid off all of our short-term and long-term borrowings.

Net cash used in operating activities was $306,000, $901,000, $5.0 million, $903,000 and $71,000 for the years ended December 31, 1997, 1998 and 1999 and the three months ended March 31, 1999 and 2000, respectively. These net cash outflows resulted from operating losses as well as increases in inventory and accounts receivable due to increased sales and were partially offset by increases in accounts payable and accrued liabilities.

Net cash used in investing activities was $553,000, $1.3 million, $2.2 million, $335,000 and $1.5 million for the years ended December 31, 1997, 1998 and 1999 and the three months ended March 31, 1999 and 2000, respectively. In 1997, the use of cash was attributable to purchases of short-term investments and property equipment. In 1998 and 1999, the use of cash was attributable to purchases of property and equipment. For the three months ended March 31, 1999 and 2000, the use of cash was attributable to purchases of intangible assets and property and equipment.

Net cash provided by financing activities was $1.2 million, $7.9 million, $13.3 million, $127,000 and $24.8 million for the years ended December 31, 1997, 1998 and 1999 and the three months ended March 31, 1999 and 2000. In 1997, cash provided by financing activities was attributable to the issuance of convertible preferred stock. In 1998, cash provided by financing activities was attributable to proceeds from the financing of equipment and the issuance of convertible preferred stock. In 1999, cash provided by financing activities was attributable to proceeds from borrowings against the accounts receivable line of credit and proceeds from the issuance of common stock, warrants and convertible preferred stock. During the three months ended March 31, 2000 cash provided by financing activities was attributable to proceeds from the issuance of our Series D preferred stock to strategic investors. The participants include: Analog Devices, Compaq, Sanyo, SeikoEpson, Toshiba, ViewSonic and a major semiconductor company.

As of March 31, 2000, our principal commitment consisted of obligations outstanding under operating leases. In June 1999, we agreed to lease approximately 23,400 square feet in a facility located

in Tualatin, Oregon, for a term of 60 months. The first year annual cost of this lease is approximately $312,000, increasing to an approximate annual cost of $462,000 for the next two years and an approximate annual cost of $497,000 for the remaining two years. Although we have no other material commitments, we anticipate a substantial increase in our capital expenditures consistent with anticipated growth in our operations, infrastructure and personnel. In the future we may also require a larger inventory of products in order to support anticipated growth in our business.

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

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

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

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

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our cash equivalents and short-term investments are exposed to financial market risk due to fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. We manage the exposure to financial market risk by performing ongoing evaluations of our investment portfolio and investing in short-term investment-grade corporate securities. These securities are highly liquid and generally mature within 12 months from our purchase date. Due to the short maturities of our investments, the carrying value approximates the fair value. In addition, we do not use our investments for trading or other speculative purposes.

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

As of March 31, 2000 our cash included money market securities. Due to the short duration of our investment portfolio, an immediate 10% change in interest rates would not have a material effect on the fair market value of our portfolio. Therefore, we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our securities portfolio.

FOREIGN CURRENCY EXCHANGE RISK

We are an international company, selling our products globally and, in particular, in Japan, Taiwan and Korea. Although we transact our business in U.S. dollars, we cannot assure you that future

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

INFLATION

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

inception.

RECENTLY ISSUE ACCOUNTING PRONOUNCEMENTS

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

YEAR 2000

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

BUSINESS

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

OVERVIEW

We design, develop and market semiconductors and software that enable the visual display of broadband content through a wide variety of electronic devices. Broadband content includes video, computer graphics and data delivered at high speeds via cable and telecommunication lines to our homes and offices. Our products integrate a microprocessor, memory and image processing circuits that function as a computer on a single chip, or system-on-a-chip.

Initially, we introduced products for use in the most technically demanding display devices including advanced multimedia projectors, flat panel computer monitors and high-definition televisions. We have recently extended our product offerings into lower cost flat panel monitors with features and prices designed for consumer markets. In the future, we intend to develop products for emerging markets including Internet appliances, electronic devices designed solely for accessing and displaying Web content.

Our system-on-a-chip semiconductors and feature-rich software help our customers to simplify their product design, reduce time to market, lower development costs and increase product performance. In addition, our customers can use a common design across multiple products.

To date, we have announced that our semiconductors are used in products marketed by Compaq, Sony and ViewSonic. We have more than 45 customers, including seven out of the top 10 computer monitor brands and 10 out of the top 15 television brands. Our customers have more than 75 products in development or production using our system-on-a-chip semiconductors.

INDUSTRY BACKGROUND

The increasing availability of high-speed access to broadband content is transforming the way we see and use information. The amount of information that can be transmitted at high speeds over long distances is increasing dramatically. At the same time, new technologies are allowing end users to receive data at significantly increased transmission speeds in the "last mile,"

the distance between the telephone and cable company and the user's home or office. According to IDC, broadband access is expected to grow at a compounded annual growth rate of approximately 78% from 1999 to 2003. In order to take full advantage of the large amounts of visual information arriving at the "last meter," the point where the information is processed and displayed, users are demanding more sophisticated display devices capable of showing text, graphics and full motion video simultaneously. These products include flat panel monitors, high definition televisions, or HDTVs, multimedia projectors, and Internet appliances. Independent research firms are projecting significant growth for these devices over the next several years. The following data has been gathered from published sources which were not specifically prepared or approved for use in this prospectus.

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

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

- Pacific Media Associates estimates that the market for multimedia projectors will grow from 750,000 units in 1999 to 1.5 million units in 2003, a compound annual growth rate of 19%.

- IDC estimates that an emerging category of devices including netTVs, screenphones and other Internet appliances will grow from 7.3 million units in 1999 to 32.5 million units in 2004, a compound annual growth rate of 35%.

Today, the convergence of television and computer applications is creating new development opportunities for products that integrate the ability to display full motion video and support interactive capabilities such as browsing the Web while watching television. This convergence requires an increase in transmission capacity and makes the interpretion and display of information more complex. While significant growth is forecasted for display devices, the increasing need to rapidly process large amounts of information delivered in a multitude of broadcast and Web transmission formats could constrain this growth. This bottleneck limits access to the full visual potential of broadband content.

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

The rapid development of high resolution display technologies has created another challenge. The quality of a display device largely depends on its resolution. Resolution is defined by the number of picture elements, or pixels, that can be displayed. Pixels on a display are arranged in a matrix made up of a series of rows and columns. With higher resolution, more information can be displayed resulting in a crisper and cleaner image. In order to meet end users' expectations for higher quality images, new display technologies are frequently introduced with higher resolutions. Today's mainstream computer monitors use an Extended Graphics Array, or XGA, display consisting of a matrix of 1,024 by 768 pixels. Higher computer resolution formats are emerging such as Super Extended

Graphics Array, or SXGA, with 1,280 by 1,024 pixels, and Ultra Extended Graphics Array, or UXGA, with 1,600 by 1,200 pixels. In addition, 18 definition television formats have been created to support HDTV video content.

The industry is seeking to address some of this complexity and to accelerate the acceptance of flat panel displays through the development of new standards such as the Digital Visual Interface, or DVI, specification, a new digital standard for attaching a flat panel monitor to a computer. However, even with development of these standards, today's technology is reaching its physical limit of transmitting and receiving image data. New standards are required to increase the available transmission capacity, or bandwidth, in the last meter. Without new standards, the adoption of advanced high-resolution, high-performance display products may be impeded.

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

PIXELWORKS SOLUTION

Our solution, the highly integrated ImageProcessor semiconductor coupled with our software, breaks through the bottleneck which has been limiting access to broadband content. Our products are capable of translating and optimizing high-speed video, computer graphics and Web information in real time. Our products also process signals ranging from low-resolution computer graphics to the latest high-definition television standards. We enable our customers to quickly integrate our products into their own advanced display product development programs with our system-on-a-chip semiconductors and software. We provide our customers with a new design approach that lets them develop all of their

display solutions products using a consistent design method that is software compatible across product lines.

We have embraced a systems design process rather than requiring our customers to design their products using many individual electronic components. Our semiconductors integrate a microprocessor, memory and image processing circuits. This approach enables our customers to substantially increase functionality, reduce time to market, and lower overall development costs in highly efficient designs that allow miniaturization. Our highly integrated products enable our customers to get their products into the market more rapidly by significantly reducing the selection, sourcing, testing, integration, debugging, and design of separate components.

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

Description of graphics on page :

This graphic is entitled "Pixelworks ImageProcessor System-on-a-Chip Integration." The subtitle of this graph reads as follows: "Block Diagram Representation for SXGA-Resolution, Multimedia LCD Monitor." A further subtitle, positioned just above the graphic, reads: "Pixelworks Integrates Up to 10 Chips onto a Single Chip." Two discrete diagrams are positioned side by side. The left diagram shows an arrow pointing downward toward a group of 10 boxes connected by black lines with a second downward-pointing arrow at the bottom. All components of the diagram are shaded by black lines with a second downward-pointing arrow

at the bottom. All components of the diagram are shaded gray and are represented as three-dimensional. Text inside the top arrow reads "Input Source." Reading from top to bottom, left to right, the individual boxes are labeled as follows: "Microprocessor," "Scaler," "Video Processor," "Frame Rate Conversion," "Auto Image Optimization," "Color Compensation," "On-Screen Display," and three individual boxes labeled "Frame Buffer Memory." Lines connect all of the boxes with arrowheads pointing at each of the boxes. The bottom downward-pointing arrow is labeled "Output to Display." The diagram on the right side shows an arrow pointing downward to a single box comprised of small, sub-sections and another downward-pointing arrow at the bottom. All components of the diagram are shaded gray and are represented as three-dimensional. The top arrow is labeled "Input Source." Within the single box, there is one large box containing smaller boxes. This large box is shaded in black with white letters reading "Pixelworks Software." A slightly smaller, gray box is positioned within the larger box and is labeled "ImageProcessor IC." Within this smaller gray box are eight smaller boxes which read as follows from top to bottom, left to right: "Microprocessor," "Scaler," "Video Processor," "Frame Rate Conversion," "Auto Image Optimization," "Color Compensation," "On-Screen Display," and "Frame Buffer Memory." Below the box is an arrow labeled "Output to Display." Five semi-transparent, gray trapezoids link the left and right diagrams with the first top trapezoid connecting the top row of blocks of the left diagram to the top row of smaller blocks in the right diagram. The second trapezoid connects the second row of blocks in the left diagram to the second row of smaller blocks in the right diagram with this pattern continuing for rows three through five in each diagram.

Key benefits of our semiconductors and software include:

CONSISTENT DESIGN ACROSS MULTIPLE PRODUCTS. Our products, comprised of both system-on-a-chip semiconductors and software, can be easily implemented across multiple product models and categories. Customers can significantly reduce development investments by leveraging a single effort to create a line of products, a benefit we believe to be unique to our design. Many of our customers are taking

advantage of this capability. For example, Compaq is using our products in both flat panel display monitors and a multimedia projector, all leveraged from the same development effort.

BROAD COMPATIBILITY. Our products work with a broad range of video, Web and computer graphics signals and display technologies. Our products instantly recognize, interpret, and optimize video and computer graphics for display on a wide variety of devices used in the home and office. This allows our customers to use our system-on-a-chip semiconductors in display products that address multiple market segments and applications. For example, ViewSonic has used our products to design flat panel monitors that have five data connectors--two analog, two digital, and one video--handling resolutions up to UXGA, or 1600 by 1200 pixels.

NUMEROUS INNOVATIVE FEATURES. Our semiconductors and software give our customers a large variety of features required for the most demanding applications. These features include picture-in-picture, video rotation, projected image correction, and digital zoom. Our software also allows our customers to rapidly develop unique features that differentiate their end products.

RAPID TIME TO MARKET WITH LOWER DEVELOPMENT COSTS. Our customers leverage our designs from one project to the next, lowering their overall development costs and promoting efficient design processes.

PIXELWORKS STRATEGY

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

DESIGN AND SELL INCREASINGLY INTEGRATED SEMICONDUCTORS. We intend to continue to combine more and more of the functionality required to open up the last meter of broadband content delivery. Our semiconductors include an integrated microprocessor, memory, and image processing circuits capable of processing high-resolution images.

DELIVER HIGHLY FLEXIBLE SOFTWARE-DRIVEN PRODUCTS. Unlike component semiconductor suppliers, our products include both highly integrated semiconductors and software. Our ready-to-implement software modules shorten our customers' development time by giving them the option to reduce or eliminate their own custom development. Our strategy is to continuously provide our customers with new software, driving higher levels of performance and functionality.

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

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

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

BUILD STRATEGIC RELATIONSHIPS. We intend to continue to work closely with strategically important partners to develop widely useful products as our next-generation products. Those strategically important partners may be our customers, our suppliers, or participants in the industry whose own strategic interests led them to work with us. In February 2000, we invited a select list of strategic investors to participate in our Series D investment round based on their ability to offer competitive advantages to us as market channels, or as suppliers, or as technology collaborators, in areas of strategic importance to

us including monitors and televisions for mass markets, next-generation high performance displays, and broadband appliances. Participants in the Series D offering include: Analog Devices, Compaq, Sanyo, Seiko Epson, Toshiba, ViewSonic and a major semiconductor company.

We are pioneering the development of ultra high-resolution display technology. We have provided IBM with semiconductors that drive the world's first commercially available super high-resolution display panel. With a resolution that approaches the quality of printed text at 123 pixels per inch, the 3.15 million pixels display the equivalent of four XGA-resolution monitors on a single screen.

PRODUCTS

Our ImageProcessor products combine system-on-a-chip semiconductors, software and software development tools which enable our customers to quickly integrate our system-on-a-chip semiconductors into their end products. Designs using our products are portable across different product lines and models. All of our products are manufactured using state-of-the-art manufacturing processes.

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

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

All of our ImageProcessor semiconductors include the following features:

- INTELLIGENT IMAGE PROCESSING--interprets and resizes incoming image signals to match the resolution and aspect ratio, or the relation of the width to the height of the specific display used in the product

- ADAPTIVE IMAGE OPTIMIZATION--identifies the incoming computer or video signals and adjusts the display to produce the best possible image

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

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

Other features of our ImageProcessor semiconductors include:

- SUPPORT FOR A RANGE OF RESOLUTIONS--the ability to handle a full range of resolution standards from 640 by 480 pixels to 2,048 by 1,536 pixels.

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

- KEYSTONE CORRECTION--a feature designed for projectors that allows users to adjust the image electronically to compensate for optical distortions in a projected image so it appears square.

Our current ImageProcessor semiconductors are:

	MARKET			OTHER MODULAR FEATURES			
	ADVANCED TELEVAPPLICATIONSUTING						
PW364	X	X		UXGA	UXGA	X	
PW364D			X	UXGA	UXGA	X	X
PW264	X	X		SXGA	XGA	X	
PW264-K	X		X	SXGA	XGA	X	X
PW164W-20	X		X	UXGA	SXGA		X
PW164-10R		X		SXGA	XGA		
PW164-20R		X		UXGA	SXGA		
PW164-10RK	X		X	SXGA	XGA		X
PW164-20RK	X		X	UXGA	SXGA		X
PWSR-01 Chip Set		X		QXGA	QXGA	X	

PW364	Full-featured SXGA, UXGA Multimedia Monitors and TVs
PW364D	Full-featured SXGA, UXGA Multimedia Projection
PW264	Full-featured XGA Monitors
PW264-K	Mainstream XGA Projection
PW164W-20	Low Cost XGA Projection
PW164-10R	15 in. XGA Multimedia Monitors
PW164-20R	17-18 in. SXGA Multimedia Monitors
PW164-10RK	Low cost XGA/SVGA Projection
PW164-20RK	Low cost SXGA Projection
PWSR-01 Chip Set	Super Resolution Monitors

(1) Resolution standards:

XGA	1,024 X 768 pixels	UXGA	1,600 X 1,200 pixels
SXGA	1,280 X 1,024 pixels	QXGA	2,048 X 1,536 pixels

OUR SOFTWARE

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

The Software Development Kit includes:

- An operating system, computer programming code and programming tools;

- Software that provides automatic image optimization which is compatible with a wide range of analog, digital, and video formats;

- Application programming interfaces that allow the customer to address our software and hardware functionality at a high level;

- Support for a wide range of hardware devices; and

- Windows-based utilities:

  - GUIBuilder--allows the customer to build graphical on-screen user interfaces

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

  - FlashUpgrader--allows the customer to download software into memory for use by our system-on-a-chip semiconductors

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

FUTURE PRODUCT DEVELOPMENT

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

TECHNOLOGY

Our core competency in semiconductor design involves an innovative methodology for developing complex system-on-a-chip designs. Our designs are based on self-contained modules that can be reassembled and reused in new development programs. We extensively simulate and test our designs using the best available simulation and synthesis tools and internally developed

proprietary validation tools. We work closely with our foundry partners to use state-of-the-art manufacturing process technology.

IMAGEPROCESSOR SEMICONDUCTOR TECHNOLOGY

UNIQUE ON-CHIP INTEGRATION OF MICROPROCESSOR, MEMORY AND DIGITAL SIGNAL PROCESSOR. Our ImageProcessor semiconductor is a complete, integrated display controller on a single chip, which includes automatic image optimization, automatic image resizing and an onboard microprocessor. This single chip replaces all of the individual components of the traditional display controller.

The technical specifications of our system-on-a-chip semiconductors include an embedded x86-compatible microprocessor and peripherals, 4 megabytes of memory, and a high performance digital signal processing, or DSP, core. Our proprietary memory system architecture enables up to 33.2 gigabits per second of bandwidth, and our DSP enables processing of image resolutions as high as Quad Extended Graphics Array, or 2,048 by 1,536 pixels, which requires more than 5 gigabits per second of transmission capacity. By integrating the microprocessor and peripherals, memory, and DSP our products provide a complete solution to the core electronics of a display device.

BROAD INTERFACE FLEXIBILITY. Our ImageProcessor semiconductors work with analog or digital signals, ranging from low resolution computer graphics to the latest high-definition television formats.

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

INTELLIGENT IMAGE PROCESSING TECHNOLOGY

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

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

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

ADAPTIVE IMAGE OPTIMIZATION. Our products must translate a broad range of signals in standard and non-standard formats. We use a proprietary image processing technique to identify the characteristics of a signal and configure the system to produce the best possible image. Our adaptive image optimization technology automatically adjusts incoming signals to achieve the highest possible image quality. The

display adjusts itself when it is turned on and continuously adjusts with every change of the incoming signals to display an optimal image.

ADVANCED VIDEO PROCESSING. Flat panel displays are progressive scan devices. Images are built and displayed sequentially one row or line at time. Typically, video signals are interlaced or built using every other row. First the odd rows are displayed and then the image is updated with the even rows. Our image processing technology converts the incoming interlaced video signals for display on flat panels by doubling the incoming signals to match the progressive scan capabilities of flat panel displays. This is an especially difficult challenge. Simply merging the odd and even fields results in very jagged image edges. Our intelligent approach uses a sophisticated video digital signal processing technique to display the best possible image.

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

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

FULLY CUSTOMIZABLE ON-SCREEN DISPLAY

Our technology couples an integrated on-screen display controller with a unique Windows-based application that allows customers who are designing ImageProcessor semiconductors into their display products to quickly develop and implement their own unique user interfaces that can incorporate graphics and colorful icons in start-up displays and menus.

CUSTOMIZABLE FEATURE SUPPORT FOR SPECIFIC DEVICE FUNCTIONALITY

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

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

- Image shaping for keystone correction in business presentation products; and

- Digital zoom to enlarge images electronically.

MIXED ANALOG AND DIGITAL SIGNAL SUPPORT

Our ImageProcessor semiconductors can support as many as four different sources of computer and video content to be displayed on a single device through integrated and add-on analog and digital receivers and connectors. Analog computer graphics, digital graphics supporting the DVI standard and video through a variety of sources that can be captured, decoded and optimized.

CUSTOMERS, SALES AND MARKETING

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

The key elements of our sales and marketing strategy are to achieve design wins with industry leading branded manufacturers in targeted markets and to continue building strong customer-supplier relationships. Once a design win has been achieved, sales and marketing efforts are focused on building long-term mutually beneficial business relationships with our customers by providing superior technology which complements their product development objectives and meets their expectations for price-performance and time to market. Marketing efforts are focused on building market-leading brand awareness and preference for our system-on-a-chip semiconductors.

Our global distribution channel is multi-tiered and involves:

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

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

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

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

In Japan, our products are sold through our distributor, Tokyo Electron

Device who represented 54.9% and 64.1% of our total revenue for 1999 and the three months ended March 31, 2000, respectively. Sales through Tokyo Electron Device to our customer Seiko Epson represented 23.3% and 25.3% of our total revenue for 1999 and the three months ended March 31, 2000, respectively. Sales through Tokyo Electron Device to our customer Hitachi represented 11.2% and 12.4% of our total revenue for 1999 and the three months ended March 31, 2000, respectively. In Taiwan, we sell through our distributor MicroMax International who represented 24.4% and 13.1% of our total revenue for 1999 and the three months ended March 31, 2000, respectively. Sales through MicroMax to our customer Optoma, formerly known as CTX Opto-Electronics, an integrator for Compaq, represented 13.5% and 9.4% of our total revenue for 1999 and the three months ended March 31, 2000, respectively. We support our European and Korean customers through direct sales supported by manufacturer representatives. We sell our products to and support our U.S. customers directly.

Our sales and marketing team included 36 employees as of March 31, 2000. The sales and marketing team includes the architecture support team of 20 application engineers who provide technical expertise and assistance to manufacturing customers on final product development. In February 2000, we established sales and marketing offices in Japan and Taiwan.

RESEARCH AND DEVELOPMENT

At our inception, our internal research and development efforts were focused on the development of our PW364 ImageProcessor semiconductor for the high-end multimedia projection and flat panel monitor markets. In 1998, our development efforts for the PW264 ImageProcessor semiconductor were focused on extending our technology into new markets. In 1999, our development efforts for the

PW164 ImageProcessor semiconductor product series were focused on developing highly efficient designs while maintaining product performance and features.

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

In addition to our 20 applications engineers we have 37 engineers, technologists and scientists who are organized into the following functional groups: Integrated Circuit Design, Software engineering, Systems Engineering and Product and Test Engineering. Software engineers constitute 40% of our engineering resources and 21% are systems engineers. This concentration of systems and software engineering reflects our system-on-a-chip focus.

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

MANUFACTURING

Our products require advanced semiconductor processes and packaging technologies. Within the semiconductor industry we are known as a "fabless" company, meaning that we do not fabricate the semiconductors that we design and develop, but instead rely on third parties to manufacture our products. We have established strategic technology relationships with our fab partners Toshiba and Taiwan Semiconductor Manufacturing Corporation, or TSMC. This approach allows us to concentrate our resources on product design and development where we believe we have greater competitive advantages. All of our current products are

manufactured by Toshiba on an application specific integrated circuit, or ASIC, turnkey basis. On this basis, Toshiba manufactures wafers, performs all assembly and test operations and is responsible for the quality and reliability testing of our products.

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

INTELLECTUAL PROPERTY

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

To supplement the technologies that we develop internally, we have licensed rights to use intellectual properties held by third parties, and we may license additional technology rights in the future. In November, 1997 we entered into a license agreement with VAutomation Incorporated pursuant to which, among other things, we licensed rights relating to VAutomation's soft core technology. In March, 1999 we entered into another agreement with VAutomation pursuant to which, among other things, we sublicensed certain rights related to x86 semiconductor core technology. That

agreement terminates on November 6, 2006. We have also recently obtained a license from InFocus for the use of its proprietary automatic pixel clock phase and frequency correction technology specified in two patents held by InFocus. We acquired this technology in connection with the settlement of a claim by InFocus that we were infringing on its patents relating to this technology. We obtained this license to avoid any uncertainty which this claim might create for our customers and our business. The license gives us the right to use this technology without payment of royalty in our products. If any of these agreements terminate, we would be required to exclude the licensed technology from our existing and future product lines.

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. We have indemnification obligations with respect to the infringement of third party intellectual property rights. There is no intellectual property litigation currently pending against us. However, we may from time to time receive notifications of claims that we may be infringing patents or other intellectual property rights owned by third parties. If it is necessary or desirable, we may seek licenses under those patents or intellectual property rights. However, we cannot be sure that licenses will be offered or that the terms of any offered licenses will be acceptable to us.

COMPETITION

In general, the market for semiconductors is intensely competitive. Our

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

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

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

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

EMPLOYEES

As of March 31, 2000, we had a total of 88 employees--37 in engineering, 36 in sales and marketing, 5 in operations and 10 in finance and administration. Of these employees, 85 are in the United States. None of our employees are represented by a collective bargaining agreement, nor have we experienced any work stoppage. We consider our relationship with our employees to be good. We depend on the continued service of our key technical, sales and senior management personnel and our ability to attract and retain additional qualified personnel. If we are unable to hire and retain qualified personnel in the future, our business could be seriously harmed.

FACILITIES

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

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information regarding our directors and executive officers, as of March 31, 2000:

NAME	AGE	POSITION
Allen H. Alley................	45	Chairman, President and Chief Executive Officer
Hans H. Olsen.................	51	Vice President, Operations
Michael G. West...............	43	Vice President, Technology
Robert Y. Greenberg...........	38	Vice President, Product Development and Customer Support
Bradley A. Zenger.............	38	Vice President, Marketing
Michael E. Barton.............	59	Vice President, Sales
Jeffrey B. Bouchard...........	39	Vice President, Finance and Chief Financial Officer
Oliver D. Curme...............	46	Director
Frank Gill....................	56	Director
Mark A. Stevens...............	39	Director
Michael D. Yonker.............	42	Director

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

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

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

ROBERT Y. GREENBERG co-founded Pixelworks and has served as our Vice President, Product Development and Customer Support since our inception. From 1988 to 1996, Mr. Greenberg designed system architectures, high-speed board-level hardware, integrated circuits and simulation and embedded system software for InFocus Systems. From 1987 to 1988, Mr. Greenberg developed a high-speed CMOS application specific semiconductor verification system for Integrated Measurement Systems, Inc., a manufacturer of performance engineering test stations. Mr. Greenberg has also held electrical engineering positions at Floating Point Systems, Inc. and Sperry Corporation. Mr. Greenberg holds a B.S.E.E. and a B.S.C.E. from the University of Michigan.

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

MICHAEL E. BARTON has served as Vice President, Sales since January 1999. From 1996 to 1998, Mr. Barton was the Senior Vice President of Sales at

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

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

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

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

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

MICHAEL D. YONKER was appointed as a director of Pixelworks in April 2000. Since July 1998, Mr. Yonker has been the Chief Financial Officer of Wieden & Kennedy, a global advertising agency serving companies such as Nike, ESPN, Coca-Cola and Microsoft. From 1993 to 1998, Mr. Yonker served as the Chief Financial Officer of InFocus Systems, having responsibility for investor relations and information technology in addition to the finance and accounting functions. From 1980 to 1993, Mr. Yonker held numerous positions with Arthur Andersen including partner in charge of the Northwest Manufacturing Practice. Mr. Yonker holds a B.A. degree in accounting and finance from Linfield College.

BOARD OF DIRECTORS

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

BOARD COMMITTEES

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

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

DIRECTOR COMPENSATION

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

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the members of the compensation committee is currently, or has been at any time since the beginning of our last fiscal year, one of our officers or employees. During the fiscal year ended December 31, 1999, none of our executive officers served as a member of the board of directors or compensation committee of any entity that has one or more officers serving as a member of our board of directors or compensation committee.

EXECUTIVE OFFICERS

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

COMPENSATION OF EXECUTIVE OFFICERS

SUMMARY COMPENSATION TABLE

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

	ANNUAL COMPENSATION	STOCK	ALL

NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	OPTIONS GRANTED(#)	OTHER COMPENSATION
Allen H. Alley President and Chief Executive Officer	1999	$160,714	$40,000	33,750	--
Hans H. Olsen Vice President, Operations	1999	133,429	45,000	--	$134,441(1)
Robert Y. Greenberg Vice President, Product Development	1999	118,899	30,000	15,000	--
Michael G. West Vice President, Technology	1999	118,899	30,000	15,000	--
Bradley A. Zenger Vice President, Marketing	1999	118,928	30,000	15,000	--
Michael E. Barton Vice President, Sales	1999	120,248	40,000	--	--

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(1) Represents the difference between the fair market value and the purchase price of 305,937 shares of common stock purchased pursuant to a restricted stock purchase award under our 1997 stock incentive plan.

OPTION GRANTS IN LAST FISCAL YEAR

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

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(2)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1999	EXERCISE PRICE PER SHARE	EXPIRATION DATE	5%	10%
Allen H. Alley	33,750	1.5%	$.257	01/20/09	$5,455	$13,824
Hans H. Olsen	--	--	--	--	--	--
Robert Y. Greenberg	15,000	.7	.23	01/20/09	2,170	5,498
Michael G. West	15,000	.7	.23	01/20/09	2,170	5,498
Bradley A. Zenger	15,000	.7	.23	01/20/09	2,170	5,498
Michael E. Barton	--	--	--	--	--	--

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

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

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

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

	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED(1)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1999		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1999(2)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Allen H. Alley.........	--	--	0	33,750	--	$ 430,076
Hans H. Olsen..........	69,063	$42,359	--	--	--	--
Robert Y. Greenberg....	--	--	0	15,000	--	191,550
Michael G. West........	--	--	0	15,000	--	191,550
Bradley A. Zenger......	--	--	0	15,000	--	191,550
Michael E. Barton......	--	--	63,750	191,250	$817,913	2,453,738

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

(2) The value of unexercised in-the-money options represents the difference between the fair market value of the underlying shares of common stock using an assumed initial public offering price of $13.00 per share and the exercise price of the option, multiplied by the number of shares underlying the option.

EMPLOYMENT AGREEMENTS

We entered into an employment agreement with Jeffrey B. Bouchard, our Vice President, Finance and Chief Financial Officer. In consideration for his services we agreed to pay Mr. Bouchard an annual salary of $140,000, plus our standard employee benefits, and granted him 225,000 options under our incentive stock option plan. If he is terminated without cause, which is defined as termination for other than committing a criminal, fraudulent or grossly negligent act, misappropriation of our assets or willful failure to perform his duties, then he is entitled to severance pay of three months salary. If we substantially sell all of our assets or are merged into another company which our shareholders do not control, then under his stock option grant, Mr. Bouchard is entitled to his options which have already vested as well as an automatic vesting of the options he would have been entitled to receive over the twelve months following a merger or sale. As a condition of his employment, Mr. Bouchard entered into our standard employee nondisclosure and developments agreement pursuant to which he may not divulge any of our proprietary information other than as permitted as part of his employment with us.

EMPLOYEE BENEFIT PLANS

1997 STOCK INCENTIVE PLAN

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

The term of each incentive option granted under the 1997 Plan will generally be ten years from the date of grant, or a shorter period as may be established at the time of the grant. An option granted under the 1997 Plan may be exercised

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

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

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

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

From the end of the prior year through March 31, 2000, options to purchase 267,000 shares of common stock were granted to our employees under the 1997 Plan at exercise prices ranging from $2.43 to $6.75 per share. None of our named executives were granted options under the 1997 Plan since the end of the last fiscal year.

2000 EMPLOYEE STOCK PURCHASE PLAN

Our 2000 Employee Stock Purchase Plan, the 2000 Plan, was adopted by the board in February 2000 and will be submitted to our shareholders for their approval prior to the date of this offering, to become effective on the date of this offering. A total of 1,500,000 of our shares of common stock have been reserved for issuance under the 2000 Plan. Beginning in 2005 the number of shares reserved for issuance under the 2000 Plan will be increased annually by the lesser of the number of shares issued under the plan during the preceding year, 2% of the outstanding shares of common stock on the first day of our fiscal year in which the increase is being made or a lesser amount determined by the board of directors.

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

The 2000 Plan contains 24 month offering periods, with each offering period being divided into four six-month purchase periods. The offering periods generally start on the first trading day on or after February 1 and August 1 of each year, except for the first offering period, which commences on the date of this offering and ends on the last trading day on or before January 31, 2002.

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

Amounts deducted and accumulated under the 2000 Plan are used to purchase shares of common stock at the end of each six-month purchase period. The price of shares purchased under the plan is 85% of the lower of the fair market value of the shares of common stock at the beginning of the offering period or after a purchase period ends. If the offering period commences on the date of this offering, the price of the shares purchased shall be the lower of 85% the price to the public of the shares offered in this offering or 85% of the fair market value of the shares of common stock after the

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

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

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

INDEMNIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS AND LIMITATION OF LIABILITY

As an Oregon corporation, we are subject to the Oregon Business Corporation

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

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

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

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

CERTAIN TRANSACTIONS

COMPANY FORMATION

On January 16, 1997, in connection with our formation, we issued 2,549,880 shares of common stock to Allen H. Alley, our President and Chief Executive Officer, 1,425,060 shares of common stock to Robert Y. Greenberg, our Vice President, Product Development and Customer Support, 1,425,060 shares of common stock to Michael G. West, our Vice President, Technology and 1,125,000 shares of common stock to Bradley A. Zenger, our Vice President, Marketing, in each case at a purchase price of $0.0013 per share.

SERIES A PREFERRED FINANCING

On April 25, 1997, we raised approximately $1,250,000 through the sale of Series A Preferred Stock and Common Stock Purchase Warrants which entitled the holders to acquire shares of our common stock at $0.675 per share. Battery Ventures received 2,325,581 Series A preferred shares and warrants to purchase 1,482,559 common shares and Enterprise Development Fund received 581,395 Series A preferred shares and warrants to purchase 370,640 common shares. Oliver D. Curme, one of our directors, is affiliated with Battery Ventures.

SERIES B PREFERRED FINANCING

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

our directors, is affiliated with Sequoia Capital.

GILL OPTION

On December 17, 1998, Frank Gill, one of our directors, was awarded an option to purchase 75,000 shares of our common stock at an exercise price of $0.167 per share. This option vests over four years, with 25% vesting on the first anniversary of the grant and 1/36th of the remainder vesting at the end of each of the following 36 months.

EXERCISE OF COMMON STOCK PURCHASE WARRANTS

In April 1999, Battery Ventures and Enterprise Development Fund fully exercised the Common Stock Purchase Warrants acquired in connection with our Series A financing. Battery Ventures acquired 1,482,559 common shares at a price of $0.675 per share and Enterprise Development Fund acquired 370,640 common shares at a price of $0.675 per share. Oliver D. Curme, one of our directors, is affiliated with Battery Ventures.

SERIES C PREFERRED FINANCING

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

TRANSACTIONS WITH HANS H. OLSEN

On August 31, 1999, Hans H. Olsen, our Vice President, Operations exercised stock options to acquire 69,063 shares of our common stock at an aggregate exercise price of $11,511 and agreed to

cancel options to acquire 185,937 shares of common stock at $0.167 per share, options to acquire 45,000 shares of common stock at $0.327 per share and options to acquire 75,000 shares of common stock at $0.78 per share. On the same date, pursuant to restricted stock awards, Mr. Olsen purchased 185,937 shares of common stock at $0.167 per share, 45,000 shares of common stock at $0.327 per share and 75,000 shares of common stock at $0.78 per share. Mr. Olsen paid the aggregate exercise price for the options exercised and the aggregate purchase price for the additional shares purchased, $115,700, by delivering to us a recourse promissory note. In addition, we advanced Mr. Olsen an additional $82,826 under the note to cover any tax liability arising from his purchase of shares pursuant to his restricted stock award. The note bears interest at an annual rate of 6.02% payable annually. The principal amount of the note must be repaid on the earlier of August 31, 2008 or termination of Mr. Olsen's employment voluntary or for cause. Upon termination of Mr. Olsen's employment we have the right to re-purchase any of these shares which are unvested for an amount equal to the price paid. Of the 305,937 restricted shares purchased by Mr. Olsen, 268,746 remain unvested as of March 31, 2000.

PRINCIPAL SHAREHOLDERS

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

- each shareholder known by us to own beneficially more than 5% of our shares of common stock, as explained below;

- each of named executives;

- each of our directors; and

- all of our directors and executive officers as a group.

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

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

The information presented below is based on:

- 29,753,563 shares of common stock outstanding as of March 31, 2000, assuming the automatic conversion of all currently outstanding preferred shares into 19,708,829 shares of common stock immediately prior to the completion of this offering; and

- 5,750,000 shares of common stock issued in this offering. Assumes no exercise of underwriters' over-allotment option. Percentage ownership figures after the offering do not include shares that may be purchased by each person in the offering.

BENEFICIAL OWNERS	SHARES BENEFICIALLY OWNED	PERCENT BEFORE OFFERING	PERCENT AFTER OFFERING
Battery Ventures IV, L.P.(1) 20 Williams Street Wellesley, MA 02181	8,845,949	29.7%	24.9%
Sequoia Capital VII(2) 3000 Sand Hill Road Building 4, Suite 280 Menlo Park, CA 94025	6,248,739	21.0	17.6
Enterprise Development Fund II, Limited Partnership 425 N. Main Street Ann Arbor, MI 48104	1,978,236	6.6	5.6
Oliver D. Curme(3)	8,845,949	29.7	24.9
Mark A. Stevens(4)	6,248,739	21.0	17.6
Frank Gill(5)	26,565	*	*
Allen H. Alley(6)	2,561,132	8.6	7.2
Hans H. Olsen	375,000	1.3	1.1
Robert Y. Greenberg(7)	1,430,064	4.8	4.0

BENEFICIAL OWNERS	SHARES BENEFICIALLY OWNED	PERCENT BEFORE OFFERING	PERCENT AFTER OFFERING
Michael G. West(8)................................	1,430,064	4.8	4.0
Bradley A. Zenger(9)..............................	1,130,004	3.8	3.2
Michael E. Barton(10).............................	159,378	*	*
Directors and Executive Officers as a group (10 persons)....................................	22,263,145	74.8%	62.4%

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* Less than one percent (1%).

(1) Includes (a) 8,718,886 shares held by Battery Ventures IV, L.P. and (b) 127,063 shares held by Battery Investment Partners IV, LLC.

(2) Includes (a) 4,835,570 shares held by Sequoia Capital VII, (b) 819,378 shares held by Sequoia Capital Franchise Fund, (c) 211,392 shares held by Sequoia Technology Partners VII, (d) 144,597 shares held by Sequoia Capital Franchise Partners, (e) 98,073 shares held by SQP 1997, (f) 84,557 shares held Sequoia International Partners and (g) 55,172 shares held by Sequoia1997 LLC.

(3) Includes (a) 8,718,886 shares held by Battery Ventures IV, L.P. and (b) 127,063 shares held by Battery Investment Partners IV, LLC. Mr. Curme is a General Partner of Battery Ventures. Mr. Curme disclaims beneficial ownership of all such shares except to the extent of his individual pecuniary interest therein.

(4) Includes (a) 4,835,570 shares held by Sequoia Capital VII, (b) 819,378 shares held by Sequoia Capital Franchise Fund, (c) 211,392 shares held by Sequoia Technology Partners VII, (d) 144,597 shares held by Sequoia Capital Franchise Partners, (e) 98,073 shares held by SQP 1997, (f) 84,557 shares held Sequoia International Partners and (g) 55,172 shares held by Sequoia1997 LLC. Mr. Stevens is a General Partner of Sequoia Capital. Mr. Stevens disclaims beneficial ownership of all such shares except to the extent of his individual pecuniary interest therein.

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

(6) Includes (a) 2,549,880 outstanding shares and (b) 11,252 shares issuable upon exercise of stock options held by Mr. Alley.

(7) Includes (a) 1,425,060 outstanding shares and (b) 5,004 shares issuable upon exercise of stock options held by Mr. Greenberg.

(8) Includes (a) 1,425,060 outstanding shares and (b) 5,004 shares issuable upon exercise of stock options held by Mr. West.

(9) Includes (a) 1,125,000 outstanding shares and (b) 5,004 shares issuable upon exercise of stock options held by Mr. Zenger.

(10) Includes (a) 69,063 outstanding shares and (b) 90,315 shares issuable upon exercise of stock options held by Mr. Barton.

DESCRIPTION OF CAPITAL STOCK

GENERAL

After this offering, we will be authorized to issue up to 250,000,000 of common stock, par value $0.001 per share, and 50,000,000 shares of preferred stock, par value, $0.001 per share. Immediately after this offering, we estimate there will be approximately 35,503,563 shares of common stock outstanding, 3,010,832 shares of common stock issuable on exercise of outstanding options and no preferred shares. The weighted average exercise price of the outstanding options is $1.30. The following description of our capital stock is not complete. You should carefully read our Fifth Amended and Restated Articles of Incorporation and First Restated Bylaws, which have been filed as exhibits to the Registration Statement, of which this Prospectus is a part. Additionally, certain provisions of Oregon law may impact our capital stock.

COMMON STOCK

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

PREFERRED STOCK

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

REGISTRATION RIGHTS

Certain shareholders holding an aggregate of 27,208,829 shares are entitled to rights with respect to registration of these shares under the securities act. The rights are provided under the terms of an agreement between us and the holders of registrable securities. Beginning six months following the completion of this offering, certain holders of then outstanding registrable securities may require on up to two occasions that we register their shares for public resale.

We are obligated to register these shares only if the outstanding registrable securities have an anticipated public offering price of at least $5,000,000. Also, holders of registrable securities may require, on one occasion in any 12 month period that shares for public resale on Form S-3 or similar short form registration if the value of the securities to be registered is at least $500,000. Furthermore, in the event we determine to register any of our

securities under the Securities Act of 1933, either for our own account or for the account of other security holders exercising their registration rights, the holder of registrable securities are entitled to include their shares of common stock in the registration. The registration rights are subject to conditions and limitations, among them our right to limit the number of shares included in the registration which may reduce the number of shares proposed to be registered in view of market conditions. These registration rights are triggered by this offering, but we have obtained waivers of these registration rights from all holders of registrable securities in connection with the offering. All expenses in connection with any registration, other than underwriting discounts and commissions, will be borne by us. All registration rights will terminate five years following the consummation of this offering.

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

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

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

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

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

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

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

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

- a merger or plan of share exchange;

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

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

These restrictions are not applicable if:

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

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

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

Our Fifth Amended and Restated Articles provide that (i) if the number of directors is fixed at six or more, our directors will be divided into three classes, each of which serves for a three-year term with one class elected each year, (ii) provide that directors may be removed by shareholders only for cause and only upon the vote of 75% of the outstanding shares of common stock, and (iii) permit the board of directors to issue preferred stock in one or more series and to fix the number of shares constituting any such series, the voting powers and all other rights and preferences of any such series, without any further vote or action by our shareholders.

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

NASDAQ NATIONAL MARKET LISTING

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

TRANSFER AGENT

The transfer agent and registrar for the shares of common stock is ChaseMellon Shareholder Services, LLC. ChaseMellon's telephone number for shareholder inquiries is 800-522-6645.

SHARES ELIGIBLE FOR FUTURE SALE

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

affect the prevailing market price and our ability to raid equity capital in the future.

Upon completion of this offering and assuming no exercise after that date of the underwriters' over-allotment option or any outstanding options, we expect to have 35,503,563 shares of common stock outstanding based on shares outstanding as of March 31, 2000.

Of the shares of common stock, the 5,750,000 shares that we expect to sell in the offering, and any shares of common stock sold upon exercise of the underwriters' over-allotment option, will be freely tradable without restriction under the securities act. However, there will be trading restrictions imposed on "affiliates" and "control persons" as defined under Rule 144. The remaining shares of common stock held by existing shareholders are restricted securities as that term is defined in Rule 144 of the securities act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 promulgated under the securities act, which rules are summarized below. As a result of the contractual restrictions described below and the provisions of Rule 144, the restricted securities will be eligible for sale in the public market immediately following the offering subject to the expiration of 180-day lock-up agreements with representatives of the underwriters and to volume limitations and other conditions under Rule 144. Following this offering, the holders of an aggregate of 27,208,829 of the outstanding shares of common stock have the right to require us to register their shares for sale upon meeting requirements to which the parties have previously agreed. See "Description of Share Capital--Registration Rights" for additional information regarding registration rights.

The following table indicates approximately when the 29,753,563 of our shares of common stock, held by existing shareholders, that are not being sold in the offering but which will be outstanding at the time the offering is complete will be eligible for sale into the public market:

ELIGIBILITY OF RESTRICTED SHARES FOR SALE IN PUBLIC MARKET	
At effective date	0
90 days after effective date	0
180 days after effective date	26,394,745
At February 22, 2001	3,358,818

The shares eligible for sale includes shares outstanding as of March 31, 2000 and assumes the automatic conversion of all outstanding preferred shares into shares of common stock upon completion of the offering.

LOCK-UP AGREEMENTS

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

OPTIONS AND WARRANTS

As of March 31, 2000, 2,637,741 and 1,500,000 of the shares of common stock are reserved for future issuance pursuant to our 1997 stock incentive plan and 2000 employee stock purchase plan, respectively. We intend to file, shortly

after effectiveness of this offering, a registration statement on Form S-8 under the securities act covering all shares of common stock reserved for issuance under the share plans. Substantially all of the shares of common stock issuable upon exercise of outstanding options are subject to 180-day lock-up agreements with the representatives of the underwriters.

RULE 144

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

- 1% of the then outstanding shares of common stock which are approximately 355,036 shares immediately after the offering; or

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

RULE 144(k)

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

RULE 701

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

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

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

UNDERWRITING

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

NAME	NUMBER OF SHARES
Salomon Smith Barney Inc.	
Deutsche Bank Securities Inc.	
SG Cowen Securities Corporation	
E*OFFERING Corp.	
Total	5,750,000

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

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

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

Pixelworks, each of our officers and directors and our other shareholders have agreed with the representatives that, for a period of 180 days after the date of this prospectus, they will not, without the prior written consent of Salomon Smith Barney Inc. dispose of or hedge any shares of common stock or any of our securities convertible into or exchangeable for shares of common stock other than, in the case of Pixelworks, shares pursuant to any employee stock option plan, stock ownership plan or dividend reinvestment plan of Pixelworks in effect at the time the underwriting agreement is signed and common stock issuable upon the conversion of securities or the exercise of warrants outstanding at the time the underwriting agreement is signed, and in the case of the officers, directors and shareholders, shares of common stock disposed of as bona fide gifts approved by Salomon Smith Barney Inc. Salomon Smith Barney Inc. in its sole discretion may release any of the securities subject to the lock-up agreements at any time without notice. The release of any lock-up is considered on a case by case basis. Factors in deciding whether to release shares may include the length of time before the lock-up expires, the trading price of the common stock and whether the person seeking the release is an officer,

director or affiliate of Pixelworks. Salomon Smith Barney Inc. has no current intention to release shares subject to the lock-up agreements.

The underwriters have reserved for sale, at the initial public offering price, up to 250,000 shares of common stock for customers, directors, employees and other persons associated with us who have expressed an interest in purchasing shares of common stock in the offering. The number of shares

available for sale to the general public in the offering will be reduced to the extent these persons purchase these reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

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

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

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

	PAID BY PIXELWORKS	
	NO EXERCISE	FULL EXERCISE
Per share...		
Total...		

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

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

E*OFFERING Corp. will allocate for distribution by E*TRADE Securities, Inc. a portion of the shares that E*OFFERING Corp. is underwriting. Copies of the prospectus in electronic format will be made available on Internet websites maintained by E*OFFERING Corp. and E*TRADE Securities, Inc. Customers of E*TRADE Securities, Inc. who complete and pass an online eligibility profile may place conditional offers to purchase shares in this offering through E*TRADE

Securities, Inc.'s Internet website. Additionally, a prospectus in electronic

format will be made available on the Web sites maintained by one or more of the other underwriters. The representatives may agree to allocate a number of shares to underwriters for sale to their on line brokerage account holders. The representatives will allocate shares to the underwriters that make Internet distributions on the same basis as other allocations.

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

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the securities act, or to contribute to payments the underwriters may be required to make with respect to any of those liabilities.

LEGAL MATTERS

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

EXPERTS

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

WHERE YOU CAN FIND MORE INFORMATION

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

PIXELWORKS, INC.
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Pixelworks, Inc.:

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

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

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

/s/ KPMG LLP

Portland, Oregon
January 26, 2000

PIXELWORKS, INC.

BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31,		MARCH 31,	
	1998	1999	2000	2000
			(UNAUDITED)	(PROFORMA) (UNAUDITED)
ASSETS				
Current assets:				
Cash and cash equivalents	$6,119	$12,199	$ 35,410	
Accounts receivable, net	83	2,537	2,268	
Inventories	43	1,404	2,641	
Prepaid expenses and other current assets	11	21	343	
Total current assets	6,256	16,161	40,662	
Property and equipment, net	1,120	1,730	1,972	

Other assets, net	300	503	1,762	
	$7,676	$18,394	$ 44,396	
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Accounts payable	$ 257	$ 712	$ 1,323	
Accrued liabilities	241	1,518	4,059	
Line of credit	1,331	669	--	
Current portion of long-term obligations	--	492	--	
Total current liabilities	1,829	3,391	5,382	
Long-term obligations, less current portion	--	591	--	
Other long-term liabilities	--	6	6	
Total liabilities	1,829	3,988	5,388	
Redeemable convertible preferred stock, $.001 par value. Authorized 16,100,000 shares; 8,406,981, 10,900,007, and 13,139,219 (unaudited) at December 31, 1998, 1999 and March 31, 2000, respectively; (liquidation preference of $19,517 at December 31, 1999)	7,755	23,701	53,183	
Commitments and contingencies	--	--	--	
Shareholders' equity (deficit):				
Common stock, $.001 par value. Authorized 35,000,000 shares; 7,500,000, 9,874,310 and 10,044,734 (unaudited) shares issued and outstanding at December 31, 1998, 1999 and March 31, 2000, respectively, (pro forma 29,753,563)	--	--	--	$53,183
Warrants	71	--	--	--
Deferred stock compensation	--	(2,230)	(2,807)	(2,807)
Note receivable for common stock	--	(199)	(199)	(199)
Accumulated deficit	(1,979)	(6,866)	(11,169)	(11,169)
Total shareholders' equity (deficit)	(1,908)	(9,295)	(14,175)	$39,008
	$7,676	$18,394	$ 44,396	

See accompanying notes to financial statements.

PIXELWORKS, INC.

STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31,	YEARS ENDED DECEMBER 31,		THREE MONTHS ENDED MARCH 31,	
	1997	1998	1999	1999	2000
				(UNAUDITED)	
Revenue:					
Product revenue, net	$ 25	$ 105	$ 12,647	$ 451	$ 7,064
Commissions	375	373	65	65	--
Licensing and development fees	--	500	100	100	--
Total revenue	400	978	12,812	616	7,064
Cost of revenue(1)	24	22	8,369	163	4,495
Gross profit	376	956	4,443	453	2,569
Operating expenses:					
Research and development(2)	215	1,446	4,805	823	1,690

Selling, general and administrative(3)	590	1,314	4,366	604	1,784
Amortization of deferred stock compensation	--	--	565	4	340
Total operating expenses	805	2,760	9,736	1,431	3,814
Loss from operations	(429)	(1,804)	(5,293)	(978)	(1,245)
Interest and other:					
Interest income	14	238	519	64	295
Interest expense	--	(23)	(110)	(28)	(38)
Miscellaneous income (expense)	39	--	--	--	(3,315)
Interest and other income (expense), net	53	215	409	36	(3,058)
Loss before income taxes	(376)	(1,589)	(4,884)	(942)	(4,303)
Income taxes	--	14	3	3	--
Net loss	(376)	(1,603)	(4,887)	(945)	(4,303)
Accretion of preferred stock redemption preference	--	(10)	(4,278)	(98)	(954)
Net loss attributable to common shareholders	$ (376)	$ (1,613)	$ (9,165)	$ (1,043)	$ (5,257)
Historical loss per share:					
Basic and diluted	$ (0.45)	$ (0.61)	$ (1.53)	$ (0.27)	$ (0.67)
Weighted average shares--basic and diluted	828,263	2,660,327	5,970,785	3,828,138	7,887,063

Amount excludes amortization of deferred stock compensation of:					
(1) Cost of revenue	$ --	$ --	$ 7	$ --	$ 6
(2) Research and development	--	--	233	3	139
(3) Selling, general and administrative	--	--	325	1	195

See accompanying notes to financial statements.

PIXELWORKS, INC.

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

(IN THOUSANDS, EXCEPT SHARE DATA)

	REDEEMABLE CONVERTIBLE PREFERRED STOCK		COMMON STOCK				
	SHARES	AMOUNT	SHARES	AMOUNT	WARRANTS	DEFERRED STOCK COMPENSATION	NOTE RECEIVABLE FOR COMMON STOCK
Balances as of January 16, 1997	--	$ --	--	$ --	$ --	$ --	$ --
Sale of common stock	--	--	7,500,000	10	--	--	--
Issuance of Series A redeemable convertible preferred stock and warrants, net	2,906,976	1,145	--	--	71	--	--
Net loss	--	--	--	--	--	--	--
Balances as of December 31, 1997	2,906,976	1,145	7,500,000	10	71	--	--
Issuance of Series B redeemable convertible preferred stock	5,500,005	6,600	--	--	--	--	--
Accretion of preferred stock redemption preference	--	10	--	(10)	--	--	--
Net loss	--	--	--	--	--	--	--
Balances as of December 31, 1998	8,406,981	7,755	7,500,000	--	71	--	--
Issuance of Series C redeemable convertible preferred stock	2,493,026	11,668	--	--	--	--	--
Exercise of stock options and issuance of common stock	--	--	521,112	162	--	--	(199)
Exercise of warrants	--	--	1,853,198	1,321	(71)	--	--
Deferred compensation related to stock options	--	--	--	2,795	--	(2,795)	--
Amortization of deferred stock compensation	--	--	--	--	--	565	--
Accretion of preferred stock							

redemption preference	--	4,278	--	(4,278)	--	--	--
Net loss	--	--	--	--	--	--	--
Balances as of December 31, 1999	10,900,007	23,701	9,874,310	--	--	(2,230)	(199)
Issuance of Series D convertible preferred stock (unaudited)	2,239,212	28,528	--	--	--	--	--
Exercise of stock options (unaudited)	--	--	170,424	37	--	--	--
Deferred compensation related to stock options (unaudited)	--	--	--	917	--	(917)	--
Amortization of deferred stock compensation (unaudited)	--	--	--	--	--	340	--
Accretion of preferred stock redemption preference (unaudited)	--	954	--	(954)	--	--	--
Net loss (unaudited)	--	--	--	--	--	--	--
Balances as of March 31, 2000 (unaudited)	13,139,219	$53,183	10,044,734	$ --	$ --	$(2,807)	$(199)

	ACCUMULATED DEFICIT	TOTAL SHAREHOLDERS' EQUITY (DEFICIT)
Balances as of January 16, 1997	$ --	$ --
Sale of common stock	--	10
Issuance of Series A redeemable convertible preferred stock and warrants, net	--	71
Net loss	(376)	(376)
Balances as of December 31, 1997	(376)	(295)
Issuance of Series B redeemable convertible preferred stock	--	--
Accretion of preferred stock redemption preference	--	(10)
Net loss	(1,603)	(1,603)
Balances as of December 31, 1998	(1,979)	(1,908)
Issuance of Series C redeemable convertible preferred stock	--	--
Exercise of stock options and issuance of common stock	--	(37)
Exercise of warrants	--	1,250
Deferred compensation related to stock options	--	--
Amortization of deferred stock compensation	--	565
Accretion of preferred stock redemption preference	--	(4,278)
Net loss	(4,887)	(4,887)
Balances as of December 31, 1999	(6,866)	(9,295)
Issuance of Series D convertible preferred stock (unaudited)	--	--
Exercise of stock options (unaudited)	--	37
Deferred compensation related to stock options (unaudited)	--	--
Amortization of deferred stock compensation (unaudited)	--	340
Accretion of preferred stock redemption preference (unaudited)	--	(954)
Net loss (unaudited)	(4,303)	(4,303)
Balances as of March 31, 2000 (unaudited)	$(11,169)	$(14,175)

See accompanying notes to financial statements.

PIXELWORKS, INC.

STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) THROUGH DECEMBER 31,	YEARS ENDED DECEMBER 31,		THREE MONTH ENDED MARCH 31,	
	1997	1998	1999	1999	2000
				(UNAUDITED)	
Cash flows from operating activities:					
Net loss	$(376)	$(1,603)	$(4,887)	$ (945)	$(4,303)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization	55	431	1,303	229	506

Write-off of property and equipment and other assets	--	--	74	11	--
Provision for doubtful accounts	--	10	160	9	58
Amortization of deferred stock compensation	--	--	565	4	340
Patent settlement expenses	--	--	--	--	3,325
Changes in operating assets and liabilities:					
Accounts receivable	(58)	(35)	(2,614)	(390)	211
Inventories	--	(43)	(1,361)	(228)	(1,237)
Prepaid expenses and other current assets	(8)	(3)	(10)	4	(322)
Accounts payable	77	180	455	224	611
Accrued liabilities	4	162	1,277	179	741
Other long-term liabilities	--	--	6	--	--
Net cash used in operating activities	(306)	(901)	(5,032)	(903)	(70)
Cash flows from investing activities:					
Purchase of property and equipment	(256)	(1,275)	(1,710)	(335)	(666)
Other assets	(5)	(295)	(480)	--	(866)
Purchase of investments	(838)	--	--	--	--
Proceeds from maturities of investments	546	292	--	--	--
Net cash used in investing activities	(553)	(1,278)	(2,190)	(335)	(1,532)
Cash flows from financing activities:					
Proceeds from lines of credit	--	1,331	669	127	(669)
Payments on long-term debt	--	--	(248)	--	(1,083)
Issuance of preferred stock and common stock warrants	1,216	6,600	11,668	--	26,528
Issuance of common stock	10	--	1,213	--	37
Net cash provided by financing activities	1,226	7,931	13,302	127	24,813
Net increase (decrease) in cash and cash equivalents	367	5,752	6,080	(1,111)	23,211
Cash and cash equivalents at beginning of period	--	367	6,119	6,119	12,199
Cash and cash equivalents at end of period	$ 367	$ 6,119	$12,199	$5,008	$35,410
Supplemental disclosure of cash flow information:					
Cash paid during the period for interest	$ --	$ 23	$ 110	$ 28	$ 38
Supplemental disclosure of non-cash investing and financing activities:					
Accrued liabilities for the purchase of property and equipment, other assets and settlement	$ 75	$ --	$ --	$ --	$ 1,800
Stock issued for the purchase of other assets and settlement	--	--	--	--	2,000
Warrants issued in connection with preferred stock issuance	71	--	--	--	--
Conversion of line of credit to term note	--	--	1,331	--	--
Accretion of preferred stock redemption preference	--	10	4,278	98	954
Note receivable for issuance of common stock	--	--	199	--	--
Warrants exercised for common stock	--	--	71	--	--

See accompanying notes to financial statements.

PIXELWORKS, INC.

NOTES TO FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) NATURE OF BUSINESS

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

(b) CASH AND CASH EQUIVALENTS

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

(c) ACCOUNTS RECEIVABLE

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

DECEMBER 31,

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

(d) INVENTORIES

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

(e) PROPERTY AND EQUIPMENT

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

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

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

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

(f) STOCK-BASED COMPENSATION

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

Pixelworks accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS 123 and Emerging Issues Task Force

consensus on Issue No. 96-18, ACCOUNTING FOR EQUITY INSTRUMENTS THAT ARE ISSUED TO OTHER THAN EMPLOYEES FOR ACQUIRING, OR IN CONJUNCTION WITH SELLING GOODS OR SERVICES. There have been no equity instruments issued to non-employees during the periods presented.

(g) REVENUE RECOGNITION

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

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

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

(h) RESEARCH AND DEVELOPMENT

Research and development are charged to expense as incurred. However, software development costs are capitalized beginning when a product's technological feasibility has been established by completion of a working model and ending when a product is available for general release to

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
customers. Completion of a working model and general release has substantially coincided. As a result, all such costs have been charged to research and development as incurred.

(i) INCOME TAXES

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

(j) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments. The carrying amount of amounts due under the line of credit approximates fair value since the interest rate approximates current rates available to Pixelworks.

(k) NET LOSS PER SHARE

Pixelworks reports net loss per share in accordance with SFAS 128, EARNINGS PER SHARE, and SEC Staff Accounting Bulletin No. 98 (SAB 98), which requires the presentation of both basic and diluted earnings per share. Basic earnings per share is computed using the weighted average number of common shares outstanding

and diluted earnings per share is computed using the weighted average number of common shares outstanding and dilutive potential common shares assumed to be outstanding during the period using the treasury stock method. The following weighted-average potential common shares have been excluded from the computation of diluted loss per share for all periods presented because the effect would have been anti-dilutive:

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1997	1998	1999	1999	2000
				(UNAUDITED)	
Shares issuable under stock options	--	--	1,696,175	948,946	2,556,996
Shares of restricted stock subject to repurchase	6,689,208	4,853,586	3,093,572	3,710,924	1,914,674
Shares of convertible preferred stock on an as converted basis	3,108,857	9,955,293	15,012,882	12,750,588	17,752,594

(l) COMPREHENSIVE INCOME

Pixelworks has had no items of comprehensive income.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

(n) CONCENTRATION OF SUPPLIERS

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

(o) RISK OF TECHNOLOGICAL CHANGE

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

(p) CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject Pixelworks to a concentration of credit risk consist of cash and cash equivalents and accounts receivable. Pixelworks limits its exposure to credit risk associated with cash and cash equivalents by placing its cash and cash equivalents with various high credit quality financial institutions. Cash and cash equivalents consist of deposits and money market funds. As of December 31, 1999, Pixelworks had accounts receivable from two customers representing approximately 75% of

accounts receivable. Loss or non-performance by these significant customers could adversely affect Pixelworks financial position or results from operations.

(q) PRO FORMA SHAREHOLDERS EQUITY (UNAUDITED)

Upon consummation of Pixelworks' initial public offering, all of the convertible preferred stock outstanding as of the closing date will automatically be converted into an aggregate of 19,708,829 shares of common stock based on the shares of convertible preferred stock outstanding as of March 31, 2000. Unaudited pro forma shareholders' equity as of March 31, 2000, as adjusted for the conversion of the redeemable convertible preferred stock, is disclosed on the balance sheet.

(r) UNAUDITED QUARTERLY INFORMATION

The financial information included herein as of March 31, 2000 and for the three-month periods ended March 31, 1999 and 2000 is unaudited. However, such information reflects all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim period.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The unaudited interim financial statements should be read together with the financial statements and the notes included in the financial statements. The results of operations for the interim period presented are not necessarily indicative of the results to be expected for the full year.

(s) COSTS OF SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE

Internal use software development costs are accounted for in accordance with Statement of Position 98-1, ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE. Costs incurred in the preliminary project stage are expensed as incurred and costs incurred in the application and development stage, which meet the capitalized criteria, are capitalized and amortized on a straightline basis over three years, the estimated useful life of the asset.

(2) BALANCE SHEET COMPONENTS

(a) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	DECEMBER 31,		MARCH 31,
	1998	1999	2000
			(UNAUDITED)
Software	$ 808	$1,658	$1,964

Computer equipment	371	981	1,197
Tooling	427	576	720
Leasehold improvements	--	91	91
	1,606	3,306	3,972
Less accumulated depreciation and amortization	486	1,576	2,000
	$1,120	$1,730	$1,972

(b) ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	DECEMBER 31,		MARCH 31,
	1998	1999	2000
			(UNAUDITED)
Payroll and related liabilities	$166	$ 751	$ 854
Reserve for sales returns	3	236	212
Royalties	--	197	234
Other	72	334	2,759
	$241	$1,518	$4,059

(3) LINE OF CREDIT

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

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

(4) LONG-TERM DEBT

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

(5) REDEEMABLE CONVERTIBLE PREFERRED STOCK

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

	DESIGNATED SHARES	DATE ISSUED	SHARES ISSUED AND OUTSTANDING DECEMBER 31, 1998	1999
Series C redeemable convertible preferred stock, $4.68 per share liquidation preference................................	2,493,026	May 28, 1999	--	2,493,026
Series B redeemable convertible preferred stock, $1.20 per share liquidation preference................................	5,500,005	April 29, 1998	5,500,005	5,500,005
Series A redeemable convertible preferred stock, $0.43 per share liquidation preference................................	3,000,000	April 25, 1997	2,906,976	2,906,976
	10,993,031		8,406,981	10,900,007

(a) VOTING

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

(b) LIQUIDATION PREFERENCES

Upon liquidation, dissolution or winding up of Pixelworks, whether voluntary or involuntary, the holders of the shares of Series C shall be paid an amount equal to the issue price for that series plus, in the case of each share, an amount equal to any dividends accrued but unpaid thereon, computed to

the date payments thereof is made available, before any payment shall be made to the holders of Series B and Series A and common stock.

(c) REDEMPTION

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

On or after March 1, 2005, 2006 and 2007, Pixelworks may at its option establish a redemption date as of which Pixelworks shall redeem all, but not less than all, of the then outstanding Series A, Series B and Series C, respectively. The preferred stock to be redeemed shall be redeemed by paying for each share in cash an amount equal to the greater of (i) the then fair market value per share or (ii) $0.43 per share, $1.20 per share and $4.68 per share for Series A, Series B and Series C, respectively, plus, in the case of each share, an amount equal to all dividends accrued and unpaid thereon.

The carrying amount of Series A, Series B and Series C have been increased by periodic accretions, based on the deemed fair value of the preferred stock at the balance sheet date and using the interest method. Each increase has been effected by charges against common stock in the absence of retained earnings.

(d) CONVERSION

The holder of any share or shares of preferred stock shall have the right, at its option at any time, to convert any such shares of preferred stock into such number of fully paid and nonassessable shares of common stock as is obtained by (i) multiplying the number of shares of preferred stock of each series so to be converted by the issue price applicable to that series and (ii) dividing the result by the conversion price then applicable to that series. If at any time a majority of the total number of preferred stock has been converted into common stock, all outstanding shares of preferred stock of a given series shall likewise automatically convert to shares of common stock. The Series A, Series B and Series C is convertible into 4,360,464, 8,250,008 and 3,739,539 shares of common stock, respectively.

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

(5) REDEEMABLE CONVERTIBLE PREFERRED STOCK (CONTINUED)

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

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

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

(e) DIVIDENDS

The Series A, B, and C shareholders are entitled to receive dividends, when and if declared by the Board, in amounts per share not less than those paid on common stock per share, and in preference to and before any dividends are paid on common stock.

(6) SHAREHOLDERS' EQUITY

(a) SHAREHOLDERS' AGREEMENT

The founding common shareholders (Founders) are subject to an amended

shareholders' agreement which provides, among other things, the restriction of the transfer of shares.

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

As of December 31, 1999, there were 1,953,107 common shares subject to the shareholders' agreement.

(b) WARRANTS

In connection with the Series A redeemable convertible preferred stock offering, Pixelworks issued warrants, at a nominal value, for the purchase of up to an aggregate of 1,853,198 shares of Pixelworks' common stock at an exercise price of $0.674 per share. The warrants were exercised in 1999.

The fair value of the warrants issued of $71 was determined by applying the Black-Scholes methodology using the issuance date for Series A redeemable convertible preferred stock as the measurement date. The per share weighted average fair market value was $0.06 on the date of grant,

with the following weighted average assumptions: Risk-free interest rate of 6%, expected dividend yield of -0-%, a two-year term and an expected volatility of 100%.

(c) NOTE RECEIVABLE FOR COMMON STOCK

During 1999, 305,937 of stock options were exchanged for 305,937 shares of common stock subject to vesting in exchange for a note receivable. The note receivable is due and payable the earlier of 1) August 31, 2008 or 2) upon termination of the borrower's employment and bears interest at 6% per year, payable annually. The note receivable is secured by the shares of common stock issued thereunder. As of December 31, 1999, there were 284,691 shares of unvested common stock.

(d) STOCK OPTIONS

Pixelworks has a stock option plan under which a total of 6,340,116 stock options may be granted to key employees. Options granted under the plan must generally be exercised while the individual is an employee and within ten years of the date of grant. On the standard vesting schedule, each option shall become exercisable at a rate of 25% on the first anniversary date of the grant and on the last day of every month thereafter for a total of thirty-six additional increments unless otherwise specifically stated at the time of grant. On the alternative vesting schedule, options become exercisable monthly for a period of four years, with 10% becoming exercisable in the first year, 20% becoming exercisable in the second year, 30% becoming exercisable in the third year, and 40% becoming exercisable in the fourth year. Had Pixelworks accounted for its stock-based compensation plan in accordance with SFAS 123, Pixelworks' net loss would approximate the pro forma disclosure as follows:

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31, 1997	YEARS ENDED DECEMBER 31, 1998	1999
Net loss attributable to common shareholders:			
As reported	$ (376)	$(1,613)	$ (9,165)
Pro forma	(379)	(1,663)	(10,082)
Basic and diluted net loss per share:			
As reported	(0.45)	(0.61)	(1.53)
Pro forma	(0.46)	(0.63)	(1.69)

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

(6) SHAREHOLDERS' EQUITY (CONTINUED)

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

	1997	1998	1999
Risk-free interest rate	6.3%	5.0%	5.5%
Expected dividend yield	0%	0%	0%
Expected life	7 years	6 years	5 years
Volatility	100%	100%	100%

Under the Black-Scholes option pricing model the weighted-average fair value of options granted during 1997, 1998 and 1999 was approximately $0.14, $0.13 and $2.18, respectively.

The following is a summary of stock option activity:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding as of January 16, 1997	--	$ --
Granted	105,750	.166
Options outstanding as of December 31, 1997	105,750	.166
Granted	1,167,000	.166

Canceled	(750)	.166
Options outstanding as of December 31, 1998	1,272,000	.166
Granted	2,181,375	1.306
Exercised	(215,182)	.266
Canceled	(323,937)	.333
Options outstanding as of December 31, 1999	2,914,256	.992
Granted (unaudited)	267,000	3.975
Exercised (unaudited)	(170,424)	.22
Options outstanding as of March 31, 2000 (unaudited)	3,010,832	$ 1.30

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICE	NUMBER OUTSTANDING AT DECEMBER 31, 1999	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 1999	WEIGHTED AVERAGE EXERCISE PRICE
$.166-.326	1,111,632	8.8	$ .193	230,336	$ .166
.500-.966	724,950	9.5	.82	--	--
1.486-2.426	1,077,674	9.8	1.926	58,468	2.413
$.166-2.426	2,914,256	9.3	$ .993	288,804	$ .62

(6) SHAREHOLDERS' EQUITY (CONTINUED)

As of March 31, 2000, 2,637,741 (unaudited) shares were available for grant.

Pixelworks has recorded deferred stock compensation of $2,795 through December 31, 1999. This deferred stock compensation is based on the difference between the deemed fair market value of common stock and the exercise price of the option or stock on the grant date. Deferred stock compensation is being amortized on an accelerated basis over the vesting period, generally four years, consistent with the method described in FASB Interpretation No. 28. Pixelworks recognized compensation expense of $565 during the year ended December 31, 1999 related to these grants. Amortization of the December 31, 1999 balance of deferred stock compensation for the years ending December 31, 2000, 2001, 2002 and 2003 would approximate $1,113, $640, $346 and $131, respectively.

(7) INCOME TAXES

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

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

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31, 1997	YEARS ENDED DECEMBER 31, 1998	1999
Computed "expected" income tax benefit........	(34)%	(34)%	(34)%
Increases (decreases) resulting from:			
State income taxes, net of federal tax benefit..................................	(4)	(4)	(4)
Increase in valuation allowance.............	41	42	39
Research and experimentation credit.........	(3)	(3)	(4)
Other.......................................	--	--	3
Actual tax expense............................	-- %	1 %	-- %

(7) INCOME TAXES (CONTINUED)

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

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

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

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

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

(8) SEGMENT INFORMATION

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

(a) SIGNIFICANT CUSTOMERS

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

(8) SEGMENT INFORMATION (CONTINUED)

(b) GEOGRAPHIC INFORMATION

Revenue by geographic region was as follows:

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

(9) COMMITMENTS AND CONTINGENCIES

(a) ROYALTIES

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

(b) 401(k) PLAN

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

(9) COMMITMENTS AND CONTINGENCIES (CONTINUED)

(c) LEASES

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

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

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

During 1999, Pixelworks entered into a noncancelable sublease agreement which expires in August 2002. Future minimum payments to be received under the sublease are as follows: 2000--$33; 2001--$33; and 2002--$21. Sublease income was $19 during the year ended December 31, 1999, which was included in rent expense.

(d) CONTINGENCIES

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

(E) CONTRACT MANUFACTURERS

Pixelworks generally commits to purchase products from its contract manufacturers to be delivered within the most recent 90 days covered by forecasts with cancellation fees. As of December 31, 1999, Pixelworks had committed to make purchases totaling $5.4 million from the contract manufacturers in the next 90 days. In addition, in specific instances, Pixelworks may agree to assume liability for limited quantities of specialized components with lead times beyond this 90-day period.

(10) SUBSEQUENT EVENTS (UNAUDITED)

(a) SERIES D OFFERING

On February 22, 2000, Pixelworks issued a total of 2,239,212 at $12.75 per share shares of Series D preferred stock.

(b) LICENSE PURCHASE

In February of 2000, Pixelworks entered into a perpetual license agreement with InFocus Systems, Inc. for the use of its proprietary automatic pixel clock phase and frequency correction technology specified in two patents held by InFocus in exchange for 156,863 shares of Series D preferred stock,

(10) SUBSEQUENT EVENTS (UNAUDITED) (CONTINUED)
valued at $12.75 per share, and $2.4 million in cash, payable in four equal quarterly installments beginning March 31, 2000. Pixelworks also received a release of any claims InFocus may have against Pixelworks relating to these patents.

(c) 2000 EMPLOYEE STOCK PURCHASE PLAN

The 2000 Employee Stock Purchase Plan was adopted by the board in February 2000, subject to shareholder approval. A total of 1,500,000 shares of common stock has been reserved for issuance under the employee stock purchase plan.

(d) STOCK SPLIT

On March 16, 2000, the board of directors approved a three-for-two split of common stock effective March 31, 2000. All share and per share data have been restated accordingly.

[PIXELWORKS
SEE THE FUTURE]

5,750,000 SHARES

PIXELWORKS, INC.

COMMON STOCK

[LOGO]

PROSPECTUS

, 2000

SALOMON SMITH BARNEY

DEUTSCHE BANC ALEX. BROWN

SG COWEN

E*OFFERING

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

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

SEC Registration Fee	$ 24,440
NASD Filing fee	8,000
Nasdaq National Market listing fee	95,000
Printing Expenses	200,000*
Accounting Fees and Expenses	250,000*
Legal Fees and Expenses	275,000*
Blue sky qualification fees and expenses	10,000*
Transfer Agent and Registrar Fees	15,000*
Miscellaneous Expenses	22,600*
Total	$900,000

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* Estimate.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

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

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

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

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

ITEM 15. RECENT SALE OF UNREGISTERED SECURITIES.

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

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

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

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

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

- On February 22, 2000, we issued and sold 2,239,212 shares of Series D preferred stock to investors for an aggregate consideration of $26,550,000 in cash and, in the case of one of the investors, rights under a patent license agreement.

- In the last three years, Pixelworks has granted 3,721,125 options for shares of common stock to our employees, consultants and other service providers. As of March 31, 2000, 385,606 of those options have been exercised for an aggregate consideration of $94,854.32 and 324,687 have been canceled, leaving 3,010,832 options outstanding. This information gives effect to 3-for-2 split of the common stock of Pixelworks effective March 31, 2000.

Upon completion of the offering covered by this Registration Statement, all outstanding shares of Series A, Series B, Series C and Series D preferred stock will automatically convert into 19,708,829 shares of common stock.

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

ITEM 16. EXHIBITS.

(a) The following exhibits as filed herewith:

NO.__DESCRIPTION

EXHIBIT NO.	DOCUMENT
1.1	Form of Underwriting Agreement.
3.1	Fifth Amended and Restated Articles of Incorporation of Pixelworks, Inc.
3.2	Sixth Amended and Restated Articles of Incorporation of

Pixelworks, Inc.

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

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* Previously filed.

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

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

ITEM 17. UNDERTAKINGS.

We hereby undertake that, for the purpose of determining any liability under the Securities Act each filing of our annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act (and, where applicable, each filing

of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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

We hereby undertake:

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

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

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

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

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

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and has duly caused this Amendment No. 1 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Tualatin, State of Oregon, on April 10, 2000.

PIXELWORKS, INC.

By: /s/ ALLEN H. ALLEY

Allen H. Alley

PRESIDENT

Witness our hands on the date set forth below. Pursuant to the requirements of the Securities Act, this Amendment No. 1 to Registration Statement has been duly signed by the following persons in the capacities indicated on April 10, 2000.

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

EXHIBIT INDEX

EXHIBIT NO.	DOCUMENT
1.1	Form of Underwriting Agreement.
3.1	Fifth Amended and Restated Articles of Incorporation of Pixelworks, Inc.
3.2	Sixth Amended and Restated Articles of Incorporation of Pixelworks, Inc.
3.3 *	First Restated Bylaws of Pixelworks, Inc.
4.1 *	Reference is made to Exhibit 3.1.
4.2 *	Third Amended Registration Rights Agreement dated February 22, 2000.
5.1	Opinion of Ater Wynne LLP as to the legality of the Common Stock being registered.

10.1 *	Form of Indemnity Agreement between Pixelworks, Inc. and each of its Officers and Directors.
10.2 *	Pixelworks, Inc. 1997 Stock Incentive Plan.
10.3 *	Loan and Security Agreement dated August 14, 1998 between Silicon Valley Bank and Pixelworks, Inc.
10.4 *	Loan Modification Agreement (modification to Exhibit 10.3) dated April 9, 1999 between Silicon Valley Bank and Pixelworks, Inc.
10.5 *	Negative Pledge Agreement dated August 14, 1998 between Silicon Valley Bank and Pixelworks, Inc.
10.6	Pixelworks, Inc. 2000 Employee Stock Purchase Plan.
10.7 *	Lease Agreement dated April 14, 1999 between Southcenter III and IV Investors LLC and Pixelworks, Inc.
10.8 *+	VAutomation Incorporated Synthesizable Soft Core Agreement dated November 4, 1997 between VAutomation Incorporated and Pixelworks, Inc.
10.9 *+	Intellectual Property Sublicense Agreement dated March 30, 1999 between VAutomation Incorporated and Pixelworks, Inc.
10.10*	License Agreement dated February 22, 2000 between Pixelworks, Inc. and InFocus Systems, Inc.
10.11	Employment Agreement between Jeffrey B. Bouchard and Pixelworks, Inc.
23.1	Consent of Ater Wynne LLP. Reference is made to Exhibit 5.1.
23.2	Consent of KPMG LLP.
24.1 *	Powers of Attorney. Reference is made to the signature page hereof.
27.1 *	Financial Data Schedule.

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* Previously filed.

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

Exhibit 1.1

Pixelworks, Inc.

5,750,000 Shares(1)
Common Stock
($0.001 par value)

Underwriting Agreement

New York, New York
, 2000

Salomon Smith Barney Inc.
Deutsche Bank Securities Inc.
SG Cowen Securities Corporation
E*OFFERING Corp.
As Representatives of the several Underwriters,
c/o Salomon Smith Barney Inc.
388 Greenwich Street
New York, New York 10013

Ladies and Gentlemen:

Pixelworks, Inc., a corporation organized under the laws of the State of Oregon (the "Company"), proposes to sell to the several underwriters named in Schedule I hereto (the "Underwriters"), for whom you (the "Representatives") are acting as representatives, 5,750,000 shares of Common Stock, $0.001 par value ("Common Stock") of the Company (said shares to be issued and sold by the Company being hereinafter called the "Underwritten Securities"). The Company also proposes to grant to the Underwriters an option to purchase up to 862,500 additional shares of Common Stock to cover over-allotments (the "Option Securities"; the Option Securities, together with the Underwritten Securities, being hereinafter called the "Securities"). To the extent there are no additional Underwriters listed on Schedule I other than you, the term Representatives as used herein shall mean you, as Underwriters, and the terms Representatives and Underwriters shall mean either the singular or plural as the context requires. Certain terms used herein are defined in Section 17 hereof.

As part of the offering contemplated by this Agreement, E*OFFERING Corp. has agreed to reserve out of the Securities set forth opposite its name on Schedule I to this Agreement, up to 250,000 shares, for sale to the Company's customers, employees, officers, and directors and other parties associated with the Company (collectively, "Participants"), as set forth in the Prospectus under the heading "Underwriting" (the "Directed Share Program"). The Securities to be sold by E*OFFERING Corp. pursuant to the Directed Share Program (the "Directed Shares") will be sold by E*OFFERING Corp. pursuant to this Agreement at the public offering price. Any Directed Shares not orally confirmed for purchase by any Participants by the end of the business day on which this Agreement is executed will be offered to the public by E*OFFERING Corp. as set forth in the Prospectus.

1. REPRESENTATIONS AND WARRANTIES. The Company represents and warrants to, and agrees with, each Underwriter as set forth below in this Section 1.

(a) The Company has prepared and filed with the Commission a registration statement (file number 333-31134) on Form S-1, including a related preliminary prospectus, for registration under the Act of the offering and sale of the Securities. The Company may have filed one or more amendments thereto, including a related preliminary prospectus, each of which has previously

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(1) Plus an option to purchase from the Company, up to 862,500 additional Securities to cover over-allotments.

been furnished to you. The Company will next file with the Commission either (1) prior to the Effective Date of such registration statement, a further amendment to such registration statement (including the form of final prospectus) or (2) after the Effective Date of such registration statement, a final prospectus in accordance with Rules 430A and 424(b). In the case of clause (2), the Company has included in such registration statement, as amended at the Effective Date, all information (other than Rule 430A Information) required by the Act and the rules thereunder to be included in such registration statement and the Prospectus. As filed, such amendment and form of final prospectus, or such final prospectus, shall contain all Rule 430A Information, together with all other such required information, and, except to the extent the Representatives shall agree in writing to a modification, shall be in all substantive respects in the form furnished to you prior to the Execution Time or, to the extent not completed at the Execution Time, shall contain only such specific additional information and other changes (beyond that contained in the latest Preliminary Prospectus) as the Company has advised you, prior to the Execution Time, will be included or made therein;

(b) On the Effective Date, the Registration Statement did or will, and when the Prospectus is first filed (if required) in accordance with Rule 424(b) and on the Closing Date (as defined herein) and on any date on which Option Securities are purchased, if such date is not the Closing Date (a "Settlement Date"), the Prospectus (and any supplements thereto) will, comply in all material respects with the applicable requirements of the Act and the rules thereunder; on the Effective Date and at the Execution Time, the Registration Statement did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and, on the Effective Date, the Prospectus, if not filed pursuant to Rule 424(b), will not, and on the date of any filing pursuant to Rule 424(b) and on the Closing Date and any Settlement Date, the Prospectus (together with any supplement thereto) will not, include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that the Company makes no representations or warranties as to the information contained in or omitted from the Registration Statement, or the Prospectus (or any supplement thereto) in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Underwriter through the Representatives specifically for inclusion in the Registration Statement or the Prospectus (or any supplement thereto);

(c) The Company has no subsidiaries;

(d) The Company has been duly incorporated and is validly existing as a corporation under the laws of the State of Oregon with full corporate power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as described in the Prospectus, and is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction which requires such qualification;

(e) the Company's authorized equity capitalization is as set forth in the Prospectus; the capital stock of the Company conforms in all material respects to the description thereof contained in the Prospectus; the outstanding shares of Common Stock have been duly and validly authorized and issued and are fully paid and nonassessable; the Securities have been duly and validly authorized, and, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement, will be fully paid and nonassessable; the Securities are duly listed, and admitted and authorized for trading, subject to official notice of issuance and evidence of satisfactory distribution, on the Nasdaq National Market; the certificates for the Securities are in valid and sufficient form; the holders of outstanding shares of capital stock of the Company are not entitled to preemptive or other rights to subscribe for the Securities; and, except as set forth in the Prospectus, no options, warrants or other rights to purchase, agreements or other obligations to

issue, or rights to convert any obligations into or exchange any securities for, shares of capital stock of or ownership interests in the Company are outstanding;

(f) There is no franchise, contract or other document of a character required to be described in the Registration Statement or Prospectus, or to be filed as an exhibit thereto, which is not described or filed as required;

(g) This Agreement has been duly authorized, executed and delivered by the Company and constitutes a valid and binding obligation of the Company enforceable in accordance with its terms.

(h) The Company is not and, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Prospectus, will not be an "investment company" as defined in the Investment Company Act of 1940, as amended.

(i) No consent, approval, authorization, filing with or order of any court or governmental agency or body is required in connection with the transactions contemplated herein, except such as have been obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters in the manner contemplated herein and in the Prospectus.

(j) Neither the issue and sale of the Securities nor the consummation of any other of the transactions herein contemplated nor the fulfillment of the terms hereof will conflict with, result in a breach or violation or imposition of any lien, charge or encumbrance upon any property or assets of the Company pursuant to, (i) the charter or bylaws of the Company, (ii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which the Company is a party or bound or to which its property is subject, or (iii) any statute, law, rule, regulation, judgment, order or decree applicable to the Company of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or any of its properties.

(k) No holders of securities of the Company have rights to the registration of such securities under the Registration Statement that have not been waived by such parties.

(l) The historical financial statements and schedules of the Company included in the Prospectus and the Registration Statement present fairly in all material respects the financial condition, results of operations and cash flows of the Company as of the dates and for the periods indicated, comply as to form with the applicable accounting requirements of the Act and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved (except as otherwise noted therein). The summary financial data set forth under the caption "Summary Financial Information" in the Prospectus and Registration Statement fairly present, on the basis stated in the Prospectus and the Registration Statement, the information included therein. The pro forma financial statements included in the Prospectus and the Registration Statement include assumptions that provide a reasonable basis for presenting the significant effects directly attributable to the transactions and events described therein, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma adjustments reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma financial statements included in the Prospectus and the Registration Statement. The pro forma financial statements included in the Prospectus and the Registration Statement comply as to form in all material respects with the applicable accounting requirements of Regulation S-X under the Act and the pro forma adjustments have been properly applied to the historical amounts in the compilation of those

statements.

(m) No action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or its property is pending or, to the best knowledge of the Company, threatened that (i) could reasonably be expected to have a material adverse effect on the performance of this Agreement or the consummation of any of the transactions contemplated hereby or (ii) could reasonably be expected to have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(n) The Company owns, licenses or leases all such properties as are necessary to the conduct of its operations as presently conducted.

(o) The Company is not in violation or default of (i) any provision of its charter or bylaws, (ii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which it is a party or bound or to which its property is subject, or (iii) any statute, law, rule, regulation, judgment, order or decree of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or any of its properties, as applicable.

(p) KPMG LLP, who have certified certain financial statements of the Company and delivered their report with respect to the audited financial statements and schedules included in the Prospectus, are independent public accountants with respect to the Company within the meaning of the Act and the applicable published rules and regulations thereunder.

(q) There are no transfer taxes or other similar fees or charges under Federal law or the laws of any state, or any political subdivision thereof, required to be paid in connection with the execution and delivery of this Agreement or the issuance by the Company or sale by the Company of the Securities.

(r) The Company has filed all foreign, federal, state and local tax returns that are required to be filed or has requested extensions thereof (except in any case in which the failure so to file would not have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto)) and has paid all taxes required to be paid by it and any other assessment, fine or penalty levied against it, to the extent that any of the foregoing is due and payable, except for any such assessment, fine or penalty that is currently being contested in good faith or as would not have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(s) No labor problem or dispute with the employees of the Company exists or is threatened or imminent, and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its principal suppliers, contractors or customers, that could have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(t) The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amount as is

prudent and customary in the business in which it is engaged; all policies of insurance and fidelity or surety bonds insuring the Company or its

businesses, assets, employees, officers and directors are in full force and effect; the Company is in compliance with the terms of such policies and instruments in all material respects; and there are no claims by the Company under any such policy or instrument as to which any insurance company is denying liability or defending under a reservation of rights clause; the Company has not been refused any insurance coverage sought or applied for; and the Company has no reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(u) The Company possesses all licenses, certificates, permits and other authorizations issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct its business, and the Company has not received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(v) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(w) The Company has not taken, directly or indirectly, any action that has constituted or that was designed to or might reasonably be expected to cause or result in, under the Exchange Act or otherwise, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(x) The Company is (i) in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (ii) has received and is in compliance with all permits, licenses or other approvals required of it under applicable Environmental Laws to conduct its business and (iii) has not received notice of any actual or potential liability for the investigation or remediation of any disposal or release of hazardous or toxic substances or wastes, pollutants or contaminants, except where such non-compliance with Environmental Laws, failure to receive required permits, licenses or other approvals, or liability would not, individually or in the aggregate, have a material adverse change in the condition (financial or otherwise), prospects, earnings, business or properties of the Company, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto). Except as set forth in the Prospectus, the Company has not been named as a "potentially

responsible party" under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

(y) The Company believes that the costs and liabilities of Environmental Laws on the business, operations and properties of the Company (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with

Environmental Laws, or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties). On the basis of such review, the Company has reasonably concluded that such associated costs and liabilities would not, singly or in the aggregate, have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(z) The Company has fulfilled its obligations, if any, under the minimum funding standards of Section 302 of the United States Employee Retirement Income Security Act of 1974 ("ERISA") and the regulations and published interpretations thereunder with respect to each "plan" (as defined in Section 3(3) of ERISA and such regulations and published interpretations) in which employees of the Company are eligible to participate and each such plan is in compliance in all material respects with the presently applicable provisions of ERISA and such regulations and published interpretations. The Company has not incurred any unpaid liability to the Pension Benefit Guaranty Corporation (other than for the payment of premiums in the ordinary course) or to any such plan under Title IV of ERISA.

(aa) The Company owns, possesses, licenses or has other rights to use, except as set forth in the Prospectus under the caption "Business - Intellectual Property", all patents, patent applications, trade and service marks, trade and service mark registrations, trade names, copyrights, licenses, inventions, trade secrets, technology, know-how and other intellectual property (collectively, the "Intellectual Property") necessary for the conduct of the Company's business as now conducted or as proposed in the Prospectus to be conducted. (a) to the there is no material infringement by third parties of any such Intellectual Property; (b) there is no pending or threatened action, suit, proceeding or claim by others challenging the Company's rights in or to any such Intellectual Property, and the Company is unaware of any facts which would form a reasonable basis for any such claim; (c) there is no pending or threatened action, suit, proceeding or claim by others challenging the validity or scope of any such Intellectual Property, and the Company is unaware of any facts which would form a reasonable basis for any such claim; (d) there is no pending or threatened action, suit, proceeding or claim by others that the Company infringes or otherwise violates any patent, trademark, copyright, trade secret or other proprietary rights of others, and the Company is unaware of any other fact which would form a reasonable basis for any such claim; (e) there is no U.S. patent or published U.S. patent application which contains claims that dominate or may dominate any Intellectual Property described in the Prospectus as being owned by or licensed to the Company or that interferes with the issued or pending claims of any such Intellectual Property; and (f) there is no prior art of which the Company is aware that may render any U.S. patent held by the Company invalid or any U.S. patent application held by the Company unpatentable which has not been disclosed to the U.S. Patent and Trademark Office.

(bb) The statements contained in the Prospectus under the captions "Risk Factors - Our limited ability to protect our intellectual property and proprietary rights could harm our competitive position by allowing our competitors to access our proprietary technology and to introduce similar display processor products" and "Business - Intellectual Property," insofar as such statements summarize legal matters, agreements, documents, or proceedings

discussed therein, are accurate and fair summaries of such legal matters, agreements, documents or proceedings.

(cc) Except as disclosed in the Registration Statement and the Prospectus, the Company (i) does not have any material lending or other relationship with any bank or lending affiliate of Salomon Smith Barney Holdings Inc. and (ii) does not intend to use any of the proceeds from the sale of the Securities hereunder to repay any outstanding debt owed to any affiliate of Salomon Smith Barney Holdings Inc.

Furthermore, the Company represents and warrants to E*OFFERING Corp. that (i) the Registration Statement, the Prospectus and any preliminary prospectus comply, and any further amendments or supplements thereto will comply, with any applicable laws or regulations of foreign jurisdictions in which the Prospectus or any preliminary prospectus, as amended or supplemented, if applicable, are distributed in connection with the Directed Share Program, (ii) no authorization, approval, consent, license, order, registration or qualification of or with any government, governmental instrumentality or court, other than such as have been obtained, is necessary under the securities laws and regulations of foreign jurisdictions in which the Directed Shares are offered outside the United States, and that (iii) the Company has not offered, or caused the Underwriters to offer, Securities to any person pursuant to the Directed Share Program with the specific intent to unlawfully influence (x) a customer or supplier of the Company to alter the customer's or supplier's level or type of business with the Company, or (y) a trade journalist or publication to write or publish favorable information about the Company or its products.

Any certificate signed by any officer of the Company and delivered to the Representatives or counsel for the Underwriters in connection with the offering of the Securities shall be deemed a representation and warranty by the Company, as to matters covered thereby, to each Underwriter.

2. PURCHASE AND SALE. (a) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company agrees to sell to each Underwriter, and each Underwriter agrees, severally and not jointly, to purchase from the Company, at a purchase price of $_______ per share, the amount of the Underwritten Securities set forth opposite such Underwriter's name in Schedule I hereto.

(b) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company hereby grants an option to the several Underwriters to purchase, severally and not jointly, up to 862,500 Option Securities at the same purchase price per share as the Underwriters shall pay for the Underwritten Securities. Said option may be exercised only to cover over-allotments in the sale of the Underwritten Securities by the Underwriters. Said option may be exercised in whole or in part at any time (but not more than once) on or before the 30th day after the date of the Prospectus upon written or telegraphic notice by the Representatives to the Company setting forth the number of shares of the Option Securities as to which the several Underwriters are exercising the option and the Settlement Date. The number of Option Securities to be purchased by each Underwriter shall be the same percentage of the total number of shares of the Option Securities to be purchased by the several Underwriters as such Underwriter is purchasing of the Underwritten Securities, subject to such adjustments as you in your absolute discretion shall make to eliminate any fractional shares.

3. DELIVERY AND PAYMENT. Delivery of and payment for the Underwritten Securities and the Option Securities (if the option provided for in Section 2(b) hereof shall have been exercised on or before the third Business Day prior to the Closing Date) shall be made at 10:00 AM, New York City time, on _____________ __, 2000, or at such time on such later date not more than three Business Days after the foregoing date as the Representatives shall designate, which date and time may be postponed by agreement between the Representatives and the Company or as provided in Section 9 hereof (such date and time of delivery and payment for the Securities being herein called the "Closing Date"). Delivery of the Securities shall be made to the Representatives for the respective accounts of the several Underwriters against payment by the several Underwriters through the Representatives of the purchase price thereof to or upon the order of the Company by wire transfer payable in same-day funds to an account specified by the Company. Delivery of the Underwritten Securities and the Option Securities shall be made through the facilities of The Depository

Trust Company unless the Representatives shall otherwise instruct.

If the option provided for in Section 2(b) hereof is exercised after the third Business Day prior to the Closing Date, the Company will deliver the Option Securities (at the expense of the Company) to the Representatives, at 388 Greenwich Street, New York, New York, on the date specified by the Representatives (which shall be within three Business Days after exercise of said option) for the respective

accounts of the several Underwriters, against payment by the several Underwriters through the Representatives of the purchase price thereof to or upon the order of the Company by wire transfer payable in same-day funds to an account specified by the Company. If settlement for the Option Securities occurs after the Closing Date, the Company will deliver to the Representatives on the Settlement Date for the Option Securities, and the obligation of the Underwriters to purchase the Option Securities shall be conditioned upon receipt of, supplemental opinions, certificates and letters confirming as of such date the opinions, certificates and letters delivered on the Closing Date pursuant to Section 6 hereof.

4. OFFERING BY UNDERWRITERS. It is understood that the several Underwriters propose to offer the Securities for sale to the public as set forth in the Prospectus.

5. AGREEMENTS. The Company agrees with the several Underwriters that:

(a) The Company will use its best efforts to cause the Registration Statement, if not effective at the Execution Time, and any amendment thereof, to become effective. Prior to the termination of the offering of the Securities, the Company will not file any amendment of the Registration Statement or supplement to the Prospectus or any Rule 462(b) Registration Statement unless the Company has furnished you a copy for your review prior to filing and will not file any such proposed amendment or supplement to which you reasonably object. Subject to the foregoing sentence, if the Registration Statement has become or becomes effective pursuant to Rule 430A, or filing of the Prospectus is otherwise required under Rule 424(b), the Company will cause the Prospectus, properly completed, and any supplement thereto to be filed with the Commission pursuant to the applicable paragraph of Rule 424(b) within the time period prescribed and will provide evidence satisfactory to the Representatives of such timely filing. The Company will promptly advise the Representatives (1) when the Registration Statement, if not effective at the Execution Time, shall have become effective, (2) when the Prospectus, and any supplement thereto, shall have been filed (if required) with the Commission pursuant to Rule 424(b) or when any Rule 462(b) Registration Statement shall have been filed with the Commission, (3) when, prior to termination of the offering of the Securities, any amendment to the Registration Statement shall have been filed or become effective, (4) of any request by the Commission or its staff for any amendment of the Registration Statement, or any Rule 462(b) Registration Statement, or for any supplement to the Prospectus or for any additional information, (5) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the institution or threatening of any proceeding for that purpose and (6) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the institution or threatening of any proceeding for such purpose. The Company will use its best efforts to prevent the issuance of any such stop order or the suspension of any such qualification and, if issued, to obtain as soon as possible the withdrawal thereof.

(b) If, at any time when a prospectus relating to the Securities is required to be delivered under the Act, any event occurs as a result of which the Prospectus as then supplemented would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein in the light of the circumstances under which they were made not misleading, or if it shall be necessary to amend the Registration Statement or supplement the Prospectus to comply with the Act or the rules thereunder, the Company

promptly will (1) notify the Representatives of any such event, (2) prepare and file with the Commission, subject to the second sentence of paragraph (a) of this Section 5, an amendment or supplement which will correct such statement or omission or effect such compliance; and (3) supply any supplemented Prospectus to you in such quantities as you may reasonably request.

(c) As soon as practicable, the Company will make generally available to its security holders and to the Representatives an earnings statement or statements of the Company which will satisfy the provisions of Section 11(a) of the Act and Rule 158 under the Act.

(d) The Company will furnish to the Representatives and counsel for the Underwriters signed copies of the Registration Statement (including exhibits thereto) and to each other Underwriter a copy of the Registration Statement (without exhibits thereto) and, so long as delivery of a prospectus by an Underwriter or dealer may be required by the Act, as many copies of each Preliminary Prospectus and the Prospectus and any supplement thereto as the Representatives may reasonably request.

(e) The Company will arrange, if necessary, for the qualification of the Securities for sale under the laws of such jurisdictions as the Representatives may designate and will maintain such qualifications in effect so long as required for the distribution of the Securities; provided that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action that would subject it to service of process in suits, other than those arising out of the offering or sale of the Securities, in any jurisdiction where it is not now so subject.

(f) The Company will not, without the prior written consent of Salomon Smith Barney Inc., offer, sell, contract to sell, pledge, or otherwise dispose of, (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company or any affiliate of the Company or any person in privity with the Company or any affiliate of the Company) directly or indirectly, including the filing (or participation in the filing) of a registration statement with the Commission in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act, any other shares of Common Stock or any securities convertible into, or exercisable, or exchangeable for, shares of Common Stock; or publicly announce an intention to effect any such transaction, for a period of 180 days after the date of the Underwriting Agreement, PROVIDED, HOWEVER, that the Company may issue and sell Common Stock pursuant to any employee stock option plan, stock ownership plan or dividend reinvestment plan of the Company in effect at the Execution Time, and file registration statements covering such securities, and the Company may issue Common Stock issuable upon the conversion of securities or the exercise of warrants outstanding at the Execution Time.

(g) The Company will not take, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result, under the Exchange Act or otherwise, in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(h) The Company agrees to pay the costs and expenses relating to the following matters: (i) the preparation, printing or reproduction and filing with the Commission of the Registration Statement (including financial statements and exhibits thereto), each Preliminary Prospectus, the Prospectus, and each amendment or supplement to any of them; (ii) the printing (or reproduction) and delivery (including postage, air freight charges and charges for counting and packaging) of such copies of the Registration Statement, each Preliminary Prospectus, the Prospectus, and all amendments or supplements to any of them, as may, in each case, be reasonably requested for use in connection with

the offering and sale of the Securities; (iii) the preparation, printing, authentication, issuance and delivery of certificates for the Securities, including any stamp or transfer taxes in connection with the original issuance and sale of the Securities; (iv) the printing (or reproduction) and delivery of this Agreement, any blue sky memorandum and all other agreements or documents printed (or reproduced) and delivered in connection with the offering of the Securities; (v) the registration of the Securities under the Exchange Act and the listing of the Securities on the Nasdaq National Market; (vi) any registration or qualification of the Securities for offer and sale under the securities or blue sky laws of the several states (including filing fees and the reasonable fees and expenses of counsel for the Underwriters relating to such registration and qualification); (vii) any filings required to be made with the National Association of Securities

Dealers, Inc. (including filing fees and the reasonable fees and expenses of counsel for the Underwriters relating to such filings); (viii) the transportation and other expenses incurred by or on behalf of Company representatives in connection with presentations to prospective purchasers of the Securities; (ix) the fees and expenses of the Company's accountants and the fees and expenses of counsel (including local and special counsel, if any) for the Company; and (x) all other costs and expenses incident to the performance by the Company of its obligations hereunder.

(i) In connection with the Directed Share Program, the Company will ensure that the Directed Shares will be restricted to the extent required by the National Association of Securities Dealers, Inc. (the "NASD") or the NASD rules from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of the effectiveness of the Registration Statement. E*OFFERING Corp. will notify the Company as to which Participants will need to be so restricted. The Company will direct the removal of such transfer restrictions upon the expiration of such period of time.

(j) The Company will pay all fees and disbursements of counsel incurred by the Underwriters in connection with the Directed Share Program and stamp duties, similar taxes or duties or other taxes, if any, incurred by the Underwriters in connection with the Directed Share Program.

Furthermore, the Company agrees with E*OFFERING Corp. that the Company will comply with all applicable securities and other applicable laws, rules and regulations in each foreign jurisdiction in which the Directed Shares are offered in connection with the Directed Share Program.

6. CONDITIONS TO THE OBLIGATIONS OF THE UNDERWRITERS. The obligations of the Underwriters to purchase the Underwritten Securities and the Option Securities, as the case may be, shall be subject to the accuracy of the representations and warranties on the part of the Company contained herein as of the Execution Time, the Closing Date and any Settlement Date pursuant to Section 3 hereof, to the accuracy of the statements of the Company made in any certificates pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to the following additional conditions:

(a) If the Registration Statement has not become effective prior to the Execution Time, unless the Representatives agree in writing to a later time, the Registration Statement will become effective not later than (i) 6:00 PM New York City time on the date of determination of the public offering price, if such determination occurred at or prior to 3:00 PM New York City time on such date or (ii) 9:30 AM on the Business Day following the day on which the public offering price was determined, if such determination occurred after 3:00 PM New York City time on such date; if filing of the Prospectus, or any supplement thereto, is required pursuant to Rule 424(b), the Prospectus, and any such supplement, will be filed in the manner and within the time period required by Rule 424(b); and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or threatened.

(b) The Company shall have requested and caused Ater Wynne LLP, counsel for the Company, to have furnished to the Representatives their opinion, dated the Closing Date and addressed to the Representatives, to the effect that:

(i) The Company has been duly incorporated and is validly existing as a corporation under the laws of the State of Oregon, with full corporate power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as described in the Prospectus, and is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction which requires such qualification;

(ii) the Company's authorized equity capitalization is as set forth in the Prospectus; the capital stock of the Company conforms in all material respects to the description thereof contained in the Prospectus; the outstanding shares of Common Stock have been duly and validly authorized and issued and are fully paid and nonassessable; the Securities have been duly and validly authorized, and, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement, will be fully paid and nonassessable; the Securities are duly listed, and admitted and authorized for trading, subject to official notice of issuance and evidence of satisfactory distribution, on the Nasdaq National Market; the certificates for the Securities are in valid and sufficient form; the holders of outstanding shares of capital stock of the Company are not entitled to statutory preemptive or other rights to subscribe for the Securities; and, except as set forth in the Prospectus, no options, warrants or other rights to purchase, agreements or other obligations to issue, or rights to convert any obligations into or exchange any securities for, shares of capital stock of or ownership interests in the Company are outstanding;

(iii) to the knowledge of such counsel, the Company has no subsidiaries;

(iv) to the knowledge of such counsel, there is no pending or threatened action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or its property of a character required to be disclosed in the Registration Statement which is not adequately disclosed in the Prospectus, and there is no franchise, contract or other document of a character required to be described in the Registration Statement or Prospectus, or to be filed as an exhibit thereto, which is not described or filed as required;

(v) the Registration Statement has become effective under the Act; any required filing of the Prospectus, and any supplements thereto, pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b); to the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement has been issued, no proceedings for that purpose have been instituted or threatened and the Registration Statement and the Prospectus (other than the financial statements and other financial information contained therein, as to which such counsel need express no opinion) comply as to form in all material respects with the applicable requirements of the Act and the rules thereunder; and such counsel has no reason to believe that on the Effective Date or the date the Registration Statement was last deemed amended the Registration Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus as of its date and on the Closing Date included or includes any untrue statement of a material fact or omitted or

omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (in each case, other than the financial statements and other financial information contained therein, as to which such counsel need express no opinion);

(vi) this Agreement has been duly authorized, executed and delivered by the Company;

(vii) the Company is not and, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Prospectus, will not be, an "investment company" as defined in the Investment Company Act of 1940, as amended;

(viii) no consent, approval, authorization, filing with or order of any court or governmental agency or body is required in connection with the transactions contemplated herein, except such as have been obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters in the manner contemplated in this Agreement and in the Prospectus and such other approvals (specified in such opinion) as have been obtained;

(ix) neither the issue and sale of the Securities, nor the consummation of any other of the transactions herein contemplated nor the fulfillment of the terms hereof will conflict with, result in a breach or violation of or imposition of any lien, charge or encumbrance upon any property or assets of the Company pursuant to, (i) the charter or bylaws of the Company, (ii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which the Company is a party or bound or to which its property is subject, or (iii) any statute, law, rule, regulation, judgment, order or decree applicable to the Company of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or any of its properties; and

(x) no holders of securities of the Company have rights to the registration of such securities under the Registration Statement that have not been waived by such parties..

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the State of Oregon or the Federal laws of the United States, to the extent they deem proper and specified in such opinion, upon the opinion of other counsel of good standing whom they believe to be reliable and who are satisfactory to counsel for the Underwriters and (B) as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and public officials. References to the Prospectus in this paragraph (b) include any supplements thereto at the Closing Date.

(c) The Representatives shall have received from Brown & Wood LLP, counsel for the Underwriters, such opinion or opinions, dated the Closing Date and addressed to the Representatives, with respect to the issuance and sale of the Securities, the Registration Statement, the Prospectus (together with any supplement thereto) and other related matters as the Representatives may reasonably require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters. Brown & Wood LLP may rely as to matters involving the application of the laws of the State of Oregon upon the opinion of Ater Wynne LLP.

(d) The Company shall have furnished to the Representatives a certificate of the Company, signed by the Chairman of the Board or the President and the principal financial or accounting officer of the Company, dated the Closing Date, to the effect that the signers of such certificate have carefully examined the Registration Statement, the Prospectus, any supplements to the Prospectus and this Agreement and that:

(i) the representations and warranties of the Company in this Agreement are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date;

(ii) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or, to the Company's knowledge, threatened; and

(iii) since the date of the most recent financial statements included in the Prospectus (exclusive of any supplement thereto), there has been no material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(e) The Company shall have requested and caused KPMG LLP to have furnished to the Representatives, at the Execution Time and at the Closing Date, letters, dated respectively as of the Execution Time and as of the Closing Date, in form and substance satisfactory to the Representatives, confirming that they are independent accountants within the meaning of the Act and the applicable rules and regulations adopted by the Commission thereunder and Rule 101 of the Code of Professional Conduct of the American Institute of Certified Public Accountants and that they have performed a review of the unaudited interim financial information of the Company for the three-month period ended March 31, 2000, and as at March 31, 2000, in accordance with Statement on Auditing Standards No. 71 and stating in effect that:

(i) in their opinion the audited financial statements and financial statement schedules and pro forma financial statements included in the Registration Statement and the Prospectus and reported on by them comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the Commission;

(ii) on the basis of a reading of the latest unaudited financial statements made available by the Company; their limited review, in accordance with standards established under Statement on Auditing Standards No. 71, of the unaudited interim financial information for the three-month period ended March 31, 2000, and as at March 31, 2000, as indicated in their report dated , 2000 ; carrying out certain specified procedures (but not an examination in accordance with generally accepted auditing standards) which would not necessarily reveal matters of significance with respect to the comments set forth in such letter; a reading of the minutes of the meetings of the stockholders, directors and committees of the Company; and inquiries of certain officials of the Company who have responsibility for financial and accounting matters of the Company as to transactions and events subsequent to December 31, 1999, nothing came to their attention which caused them to believe that:

(1) any unaudited financial statements

included in the Registration Statement and the Prospectus do not comply as to form in all material respects with applicable accounting requirements of the Act and with the related rules and regulations adopted by the Commission with respect to registration statements on Form S-1; and said unaudited financial statements are not in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements included in the Registration Statement and the Prospectus;

(2) with respect to the period subsequent to March 31, 2000 there were any changes, at a specified date not more than five days prior to the date of the letter, in the long-term obligations, less current portion and other long-term liabilities of the Company or capital stock of the Company or increases in the shareholder's equity (deficit) of the Company as compared with the amounts

shown on the March 31, 2000 balance sheet included in the Registration Statement and the Prospectus, or for the period from April 1, 2000 to such specified date there were any decreases, as compared with the period ended March 31, 1999 in total revenue or in total or per share amounts of net loss of the Company, except in all instances for changes or decreases set forth in such letter, in which case the letter shall be accompanied by an explanation by the Company as to the significance thereof unless said explanation is not deemed necessary by the Representatives;

(3) the information included in the Registration Statement and Prospectus in response to Regulation S-K, Item 301 (Selected Financial Data), Item 302 (Supplementary Financial Information), Item 402 (Executive Compensation) and Item 503(d) (Ratio of Earnings to Fixed Charges) is not in conformity with the applicable disclosure requirements of Regulation S-K;

(iii) they have performed certain other specified procedures as a result of which they determined that certain information of an accounting, financial or statistical nature (which is limited to accounting, financial or statistical information derived from the general accounting records of the Company) set forth in the Registration Statement and the Prospectus, including the information set forth under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Selected Financial Data", "Prospectus Summary--Summary Financial Information ", "Capitalization", "Dilution", "Business" and "Risk Factors" in the Prospectus, agrees with the accounting records of the Company, excluding any questions of legal interpretation

The Company shall have received from KPMG LLP (and furnished to the Representatives) a report with respect to a review of unaudited interim financial information of the Company for the five quarters ending March 31, 2000, in accordance with Statement on Auditing Standards No. 71.

The Company shall have received from KPMG LLP (and furnished to the Representatives) an examination report with respect to Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company for the three fiscal years ending December 31, 1999, and a review report with respect to Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company for the three-month period ending March 31, 1999, and the corresponding period for the prior fiscal year, each in accordance with

Statement on Standards for Attestation Engagements No. 8 issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, and such examination report shall be included in the Registration Statement.

(f) Subsequent to the Execution Time or, if earlier, the dates as of which information is given in the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto), there shall not have been (i) any change or decrease specified in the letter or letters referred to in paragraph (e) of this Section 6 or (ii) any change, or any development involving a prospective change, in or affecting the condition (financial or otherwise), earnings, business or properties of the Company, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto) the effect of which, in any case referred to in clause (i) or (ii) above, is, in the sole judgment of the Representatives, so material and adverse as to make it impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto).

(g) Prior to the Closing Date, the Company shall have furnished to the Representatives such further information, certificates and documents as the Representatives may reasonably request.

(h) The Securities shall have been listed and admitted and authorized for trading on the Nasdaq National Market, and satisfactory evidence of such actions shall have been provided to the Representatives.

(i) At the Execution Time, the Company shall have furnished to the Representatives a letter substantially in the form of Exhibit A hereto from each officer and director of the Company and ____ addressed to the Representatives.

If any of the conditions specified in this Section 6 shall not have been fulfilled in all material respects when and as provided in this Agreement, or if any of the opinions and certificates mentioned above or elsewhere in this Agreement shall not be in all material respects reasonably satisfactory in form and substance to the Representatives and counsel for the Underwriters, this Agreement and all obligations of the Underwriters hereunder may be canceled at, or at any time prior to, the Closing Date by the Representatives. Notice of such cancellation shall be given to the Company in writing or by telephone or facsimile confirmed in writing.

The documents required to be delivered by this Section 6 shall be delivered at the office of Brown & Wood LLP, counsel for the Underwriters, at One World Trade Center, New York, New York, 10048-0557, on the Closing Date.

7. REIMBURSEMENT OF UNDERWRITERS' EXPENSES. If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 6 hereof is not satisfied, because of any termination pursuant to Section 10 hereof or because of any refusal, inability or failure on the part of the Company to perform any agreement herein or comply with any provision hereof other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters severally through Salomon Smith Barney on demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities.

8. INDEMNIFICATION AND CONTRIBUTION. (a) The Company agrees to indemnify and hold harmless each Underwriter, the directors, officers, employees and agents of each Underwriter and each person who controls any Underwriter within the meaning of either the Act or the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out

of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the registration statement for the registration of the Securities as originally filed or in any amendment thereof, or in any Preliminary Prospectus or the Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter through the Representatives specifically for inclusion therein; and PROVIDED, FURTHER, that the Company will not be liable to any Underwriter or any person controlling such Underwriter with respect to any untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus which is corrected in the Prospectus (or any amendment or supplement thereto) if the Company sustains the burden of proving that such Underwriter

sold Underwritten Securities to the person asserting any such loss, claim, damage or liability without sending or giving, at or prior to the written confirmation of the sale of such Underwritten Securities to such person, a copy of the Prospectus (or any amendment or supplement thereto), if the Company had previously furnished copies thereof to such Underwriter. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) The Company agrees to indemnify and hold harmless E*OFFERING Corp., the directors, officers, employees and agents of E*OFFERING Corp. and each person, who controls E*OFFERING Corp. within the meaning of either the Act or the Exchange Act ("E*OFFERING Corp. Entities"), from and against any and all losses, claims, damages and liabilities to which they may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim), insofar as such losses, claims damages or liabilities (or actions in respect thereof) (i) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the prospectus wrapper material prepared by or with the consent of the Company for distribution in foreign jurisdictions in connection with the Directed Share Program attached to the Prospectus or any preliminary prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statement therein, when considered in conjunction with the Prospectus or any applicable preliminary prospectus, not misleading; (ii) caused by the failure of any Participant to pay for and accept delivery of the securities which immediately following the Effective Date of the Registration Statement, were subject to a properly confirmed agreement to purchase; or (iii) related to, arising out of, or in connection with the Directed Share Program, provided that, the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of E*OFFERING Corp. specifically for inclusion therein.

(c) Each Underwriter severally and not jointly agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who signs the Registration Statement, and each person who controls the Company within the meaning of either the Act or the Exchange Act, to the same extent as the foregoing indemnity from the Company to each Underwriter, but only with reference to written information relating to such Underwriter furnished to the Company by or on behalf of such Underwriter through the Representatives specifically for inclusion in the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability which any Underwriter may otherwise have. The Company acknowledges that the statements set forth in the last paragraph of the cover page regarding delivery of the

Securities and, under the heading "Underwriting", (i) the list of Underwriters and their respective participation in the sale of the Securities, (ii) the sentences related to concessions and reallowances and (iii) the paragraph related to stabilization, syndicate covering transactions and penalty bids in any Preliminary Prospectus and the Prospectus constitute the only information furnished in writing by or on behalf of the several Underwriters for inclusion in any Preliminary Prospectus or the Prospectus.

(d) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a) or (b) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); PROVIDED, HOWEVER, that such

counsel shall be reasonably satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. Notwithstanding anything contained herein to the contrary, if indemnity may be sought pursuant to Section 8(b) hereof in respect of such action or proceeding, then in addition to such separate firm for the indemnified parties, the indemnifying party shall be liable for the reasonable fees and expenses of not more than one separate firm (in addition to any local counsel) for E*OFFERING Corp., the directors, officers, employees and agents of E*OFFERING Corp., and all persons, if any, who control E*OFFERING Corp. within the meaning of either the Act or the Exchange Act for the defense of any losses, claims, damages and liabilities arising out of the Directed Share Program. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

(e) In the event that the indemnity provided in paragraph (a) or (b) of this Section 8 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the Company and the Underwriters severally agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "Losses") to which the Company and one or more of the Underwriters may be subject in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and by the Underwriters on the other from the offering of the Securities;

PROVIDED, HOWEVER, that in no case shall any Underwriter (except as may be provided in any agreement among underwriters relating to the offering of the Securities) be responsible for any amount in excess of the underwriting discount or commission applicable to the Securities purchased by such Underwriter hereunder. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the Company and the Underwriters severally shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and of the Underwriters on the other in connection with the statements or omissions which resulted in such Losses as well as any other relevant equitable considerations. Benefits received by the Company shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) received by it, and benefits received by the Underwriters shall be deemed to be equal to the total underwriting discounts and commissions, in each case as set forth on the cover page of the Prospectus. Relative fault shall be determined by reference to, among other things, whether any untrue or any alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information provided by the Company on the one hand or the Underwriters on the other, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person who controls an Underwriter within the meaning of either the Act or the Exchange Act and each director, officer, employee and agent of an Underwriter shall have the same rights to contribution as such Underwriter, and

each person who controls the Company within the meaning of either the Act or the Exchange Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company, subject in each case to the applicable terms and conditions of this paragraph (e).

9. DEFAULT BY AN UNDERWRITER. If any one or more Underwriters shall fail to purchase and pay for any of the Securities agreed to be purchased by such Underwriter or Underwriters hereunder and such failure to purchase shall constitute a default in the performance of its or their obligations under this Agreement, the remaining Underwriters shall be obligated severally to take up and pay for (in the respective proportions which the amount of Securities set forth opposite their names in Schedule I hereto bears to the aggregate amount of Securities set forth opposite the names of all the remaining Underwriters) the Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase; PROVIDED, HOWEVER, that in the event that the aggregate amount of Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase shall exceed 10% of the aggregate amount of Securities set forth in Schedule I hereto, the remaining Underwriters shall have the right to purchase all, but shall not be under any obligation to purchase any, of the Securities, and if such nondefaulting Underwriters do not purchase all the Securities, this Agreement will terminate without liability to any nondefaulting Underwriter or the Company. In the event of a default by any Underwriter as set forth in this Section 9, the Closing Date shall be postponed for such period, not exceeding five Business Days, as the Representatives shall determine in order that the required changes in the Registration Statement and the Prospectus or in any other documents or arrangements may be effected. Nothing contained in this Agreement shall relieve any defaulting Underwriter of its liability, if any, to the Company and any nondefaulting Underwriter for damages occasioned by its default hereunder.

10. TERMINATION. This Agreement shall be subject to termination in the absolute discretion of the Representatives, by notice given to the Company prior to delivery of and payment for the Securities, if at any time prior to such time (i) trading in the Company's Common Stock shall have been suspended by the Commission or the Nasdaq National Market or trading in securities generally on the New York Stock Exchange or the Nasdaq National Market shall have been suspended or limited or minimum prices shall have been established on such Exchange or the Nasdaq National Market, (ii) a banking

moratorium shall have been declared either by Federal or New York State authorities or (iii) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war, or other calamity or crisis the effect of which on financial markets is such as to make it, in the sole judgment of the Representatives, impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Prospectus (exclusive of any supplement thereto).

11. REPRESENTATIONS AND INDEMNITIES TO SURVIVE. The respective agreements, representations, warranties, indemnities and other statements of the Company or its officers and of the Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or the Company or any of the officers, directors, employees, agents or controlling persons referred to in Section 8 hereof, and will survive delivery of and payment for the Securities. The provisions of Sections 7 and 8 hereof shall survive the termination or cancellation of this Agreement.

12. NOTICES. All communications hereunder will be in writing and effective only on receipt, and, if sent to the Representatives, will be mailed, delivered or telefaxed to the Salomon Smith Barney Inc. General Counsel (fax no.: (212) 816-7912) and confirmed to the General Counsel, Salomon Smith Barney Inc., at 388 Greenwich Street, New York, New York, 10013, Attention: General Counsel; or, if sent to the Company, will be mailed, delivered or telefaxed to Alen H. Alley, President (fax no.: (503) 612-6713) and confirmed to it at 7700 SW Mohawk, Tualatin, Oregon, 97062, attention Allen H. Alley, President.

13. SUCCESSORS. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers, directors, employees, agents and controlling persons referred to in Section 8 hereof, and no other person will have any right or obligation hereunder.

14. APPLICABLE LAW. This Agreement will be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed within the State of New York.

15. COUNTERPARTS. This Agreement may be signed in one or more counterparts, each of which shall constitute an original and all of which together shall constitute one and the same agreement.

16. HEADINGS. The section headings used herein are for convenience only and shall not affect the construction hereof.

17. DEFINITIONS. The terms which follow, when used in this Agreement, shall have the meanings indicated.

"Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Business Day" shall mean any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or trust companies are authorized or obligated by law to close in New York City or Portland, Oregon.

"Commission" shall mean the Securities and Exchange Commission.

"Effective Date" shall mean each date and time that the Registration Statement, any post-effective amendment or amendments thereto and any Rule 462(b) Registration Statement became or become effective.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Execution Time" shall mean the date and time that this Agreement is executed and delivered by the parties hereto.

"Preliminary Prospectus" shall mean any preliminary prospectus referred to in paragraph 1(a) above and any preliminary prospectus included in the Registration Statement at the Effective Date that omits Rule 430A Information.

"Prospectus" shall mean the prospectus relating to the Securities that is first filed pursuant to Rule 424(b) after the Execution Time or, if no filing pursuant to Rule 424(b) is required, shall mean the form of final prospectus relating to the Securities included in the Registration Statement at the Effective Date.

"Registration Statement" shall mean the registration statement referred to in paragraph 1(a) above, including exhibits and financial statements, as amended at the Execution Time (or, if not effective at the Execution Time, in the form in which it shall become effective) and, in the event any post-effective amendment thereto or any Rule 462(b) Registration Statement becomes effective prior to the Closing Date, shall also mean such registration statement as so amended or such Rule 462(b) Registration Statement, as the case may be. Such term shall include any Rule 430A Information deemed to be included therein at the Effective Date as provided by Rule 430A.

"Rule 424", "Rule 430A" and "Rule 462" refer to such rules under the Act.

"Rule 430A Information" shall mean information with respect to the Securities and the offering thereof permitted to be omitted from the Registration Statement when it becomes effective pursuant to Rule 430A.

"Rule 462(b) Registration Statement" shall mean a registration statement and any amendments thereto filed pursuant to Rule 462(b) relating to the offering covered by the registration statement referred to in Section 1(a) hereof.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement among the Company and the several Underwriters.

Very truly yours,

Pixelworks, Inc.

By: ....
Name:
Title:

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

Salomon Smith Barney Inc.
Deutsche Bank Securities Inc.
SG Cowen Securities Corporation

E*OFFERING Corp.

By: Salomon Smith Barney Inc.

By:
....
Name:
Title:

For themselves and the other several Underwriters named in Schedule I to the foregoing Agreement.

SCHEDULE I

UNDERWRITERS	NUMBER OF UNDERWRITTEN SECURITIES TO BE PURCHASED
Salomon Smith Barney Inc..........................	
Deutsche Bank Securities Inc......................	
SG Cowen Securities Corporation...................	
E*OFFERING Corp...................................	
Total..........................	5,750,000

[FORM OF LOCK-UP AGREEMENT] EXHIBIT A

[LETTERHEAD OF OFFICER, DIRECTOR OR MAJOR SHAREHOLDER OF PIXELWORKS, INC.]

PIXELWORKS, INC.
PUBLIC OFFERING OF COMMON STOCK

___________ __, 2000

Salomon Smith Barney Inc.
Deutsche Bank Securities Inc.
SG Cowen Securities Corporation
E*OFFERING Corp.
As Representatives of the several Underwriters,
c/o Salomon Smith Barney Inc.
388 Greenwich Street
New York, New York 10013

Ladies and Gentlemen:

This letter is being delivered to you in connection with the proposed Underwriting Agreement (the "Underwriting Agreement"), between Pixelworks, Inc., a corporation organized under the laws of the State of Oregon (the "Company"), and each of you as representatives of a group of Underwriters named therein, relating to an underwritten public offering of Common Stock,

$0.001 par value (the "Common Stock"), of the Company.

In order to induce you and the other Underwriters to enter into the Underwriting Agreement, the undersigned will not, without the prior written consent of Salomon Smith Barney Inc., offer, sell, contract to sell, pledge or otherwise dispose of, (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company or any affiliate of the Company or any person in privity with the Company or any affiliate of the Company) directly or indirectly, including the filing (or participation in the filing of) a registration statement with the Securities and Exchange Commission in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Securities and Exchange Commission promulgated thereunder with respect to, any shares of capital stock of the Company or any securities convertible into, or exercisable or exchangeable for such capital stock, or publicly announce an intention to effect any such transaction, for a period of 180 days after the date of this Agreement, other than shares of Common Stock disposed of as bona fide gifts approved by Salomon Smith Barney Inc.

If for any reason the Underwriting Agreement shall be terminated prior to the Closing Date (as defined in the Underwriting Agreement), the agreement set forth above shall likewise be terminated.

Yours very truly,

[SIGNATURE OF OFFICER, DIRECTOR OR MAJOR STOCKHOLDER]

[NAME AND ADDRESS OF OFFICER, DIRECTOR OR MAJOR STOCKHOLDER]

FIFTH AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF
PIXELWORKS, INC.

Pursuant to the Oregon Business Corporation Act (ORS Chapter 60), PixelWorks, Inc. hereby adopts the following Fifth Amended and Restated Articles of Incorporation, which shall supersede the heretofore existing Fourth Restated Articles of Incorporation and all previous amendment and restatements thereof.

ARTICLE 1.

NAME.

The name of the Corporation is Pixelworks, Inc.

ARTICLE 2.

SHARES AND RIGHTS THEREOF GENERALLY.

2.1 AUTHORIZED STOCK. The aggregate number of shares which the corporation shall have authority to issue is 250,000,000 shares of common stock with a par value of $0.001 per share ("Common Stock") , and 50,000,000 shares of preferred stock with a par value of $0.001 per share (Preferred Stock").

2.2 RIGHTS OF COMMON STOCK. The shares of common stock have unlimited voting rights and are entitled to receive the net assets of the Corporation on dissolution, subject to rights of the Preferred Stock.

2.3 AUTHORITY TO DESIGNATE SERIES PREFERRED. The Board of Directors is hereby authorized to fix or alter the rights, preferences, privileges and restrictions granted to or imposed upon additional series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or of any of them. Subject to compliance with applicable protective voting rights or consent rights which have been or may be granted to the Preferred Stock or any series thereof herein, by law, or in Articles of Amendment adopted by the Board of Directors ("Protective Provisions"), but notwithstanding any other rights of the Preferred Stock or any series thereof, the rights, privileges, preferences and restrictions of any such additional series may be subordinated to, made PARI PASSU with (including, without limitation, inclusion in provisions with respect to liquidation and acquisition preferences, redemption and/or approval of matters by vote or written consent), or made senior to any of those of any present or future class of series of Preferred or Common Stock. Subject to compliance with applicable Protective Provisions, the Board of Directors is also authorized to increase or decrease the number of shares of any series, prior or subsequent to the issue of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

ARTICLE 3.

DESIGNATION OF SERIES OF PREFERRED STOCK.

3.1 DEFINITIONS AND DESIGNATION.

3.1.1 PREFERRED STOCK. For purposes of this Article 3, the term "Preferred Stock" refers to shares of Preferred Stock of any designated series, but not shares that have not yet been designated to a series. Where rights, privileges, preferences or restrictions are

specific to a particular series, that series is identified by name, e.g., "Series A Preferred Stock."

3.1.2 COMMON STOCK. As used in this Article 3, the term "Common Stock" shall mean and include the Corporation's authorized Common Stock, par value $.001 per share, as constituted on the date of filing of these Fifth Amended and Restated Articles of Incorporation, and shall also include any capital stock of any class of the Corporation thereafter authorized which shall neither be limited to a fixed sum or percentage of par value in respect of the rights of the holders thereof to participate in dividends nor entitled to a preference in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation; provided that the shares of Common Stock receivable upon conversion of shares of Preferred Stock shall include only shares designated as Common Stock of the Corporation on the date of filing of these Fifth Amended and Restated Articles of Incorporation, or in case of any reorganization or reclassification of the outstanding shares thereof, the stock, securities or assets provided for in Section 3.9.4 and Section 3.9.5. The Common Stock, voting as a separate class, shall have the right to elect one Director.

3.1.3 SERIES A PREFERRED STOCK: NUMBER, ISSUE PRICE, DIRECTOR RIGHTS. There is hereby designated, out of the 50,000,000 authorized shares of Preferred Stock, 2,906,976 shares as Series A Preferred Stock, with rights, privileges, preferences and restrictions as described in this Article 3. Series A Preferred Stock shall have an Issue Price of $0.43 per share. The Series A Preferred Stock, voting as a separate series, shall have the right to elect one Director.

3.1.4 SERIES B PREFERRED STOCK: NUMBER, ISSUE PRICE, DIRECTOR RIGHTS. There is hereby designated, out of the 50,000,000 authorized shares of Preferred Stock, 5,500,005 shares as Series B Preferred Stock, with rights, privileges, preferences and restrictions as described in this Article 3. Series B Preferred Stock shall have an Issue Price of $1.20 per share. The Series B Preferred Stock, voting as a separate series, shall have the right to elect one Director.

3.1.5 SERIES C PREFERRED STOCK: NUMBER AND ISSUE PRICE. There is hereby designated, out of the 50,000,000 authorized shares of Preferred Stock, 2,493,026 shares as Series C Preferred Stock, with rights, privileges, preferences and restrictions as described in this Article 3. Series C Preferred Stock shall have an Issue Price of $4.68 per share.

3.1.6 SERIES D PREFERRED STOCK: NUMBER AND ISSUE PRICE. There is hereby designated, out of the 50,000,000 authorized shares of Preferred Stock, 2,250,000 shares as Series D Preferred Stock, with rights, privileges, preferences and restrictions as described in this Article 3. Series D Preferred Stock shall have an Issue Price of $12.75 per share.

3.2 VOTING. Except as may be otherwise provided in this Article 3 or by law, issued Preferred Stock shall vote together with all other classes and series of stock of the Corporation as a single class on all actions to be taken by the stockholders of the Corporation. Each share of Preferred Stock shall entitle the holder thereof to such number of votes per share on each such action as shall equal the number of shares of Common Stock (including fractions of a share) into which each share of Preferred Stock is then convertible.

3.3 BOARD OF DIRECTORS.

3.3.1 SIZE. The Corporation shall not, without the affirmative vote or written consent of a majority of all directors elected by holders of Preferred Stock consenting or voting (as the case may be) separately as holders of such Preferred Stock, increase the maximum number of directors constituting the Board of Directors to a number in excess of five (5).

3.3.2 RIGHTS TO ELECT. The holders of Preferred Stock shall be entitled to elect that number of directors of the Corporation (voting by series, or collectively among one or more series, as may be specified) as is specified in Section 3.1. At any meeting (or in a written consent in lieu thereof) held for the purpose of electing directors, the presence in person or by proxy of the holders of at least a majority in interest of the then outstanding shares of Preferred Stock of any given series shall constitute a quorum of the Preferred Stock of that series for the election of directors to be elected solely by the holders of that series. The presence in person or by proxy of the holders of at least a majority in interest of the then outstanding shares of Preferred Stock of any given combination of series shall constitute a quorum of the Preferred Stock of that combination, for the election of directors to be elected solely by that particular combination of series. A vacancy in any directorship elected by the holders of any particular series or combination of series of Preferred Stock shall be filled only by vote or written consent of the holders of that series or combination of series of Preferred Stock. The directors shall serve for terms extending from the date of their election and qualification until the time of the next succeeding annual meeting of shareholders and until their successors have been elected and qualified. All remaining directors not elected pursuant to Section 3.1 above shall be elected only upon election by each of the holders of the Common Stock, voting as a separate class, the holders of the Series A Preferred Stock, voting as a separate class, the holders of the Series B Preferred Stock, voting as a separate class, and the holders of the Series C Preferred Stock and Series D Preferred Stock, voting together as a separate class.

3.4 DIVIDENDS. Preferred Stock shall be entitled to receive dividends, when and if declared by the Board of Directors, in amounts per share (determined on an as-converted-to-common-stock basis) not less than those paid on Common Stock per share, and in preference to and before any dividends are paid on Common Stock. All dividends declared upon the Preferred Stock shall be declared pro rata per share.

3.5 LIQUIDATION, DISSOLUTION AND WINDING-UP.

3.5.1 LIQUIDATION PREFERENCE PAYMENT. Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of shares of Series C Preferred Stock and Series D Preferred Stock shall be entitled to receive in preference to the holders of the shares of Series A and Series B Preferred Stock and Common Stock an amount per share equal to the Issue Price for each such series, plus, an amount per share equal to any

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dividends declared but unpaid thereon, computed to the date payment thereof is made (the "Senior Liquidation Preference Payment"). After payment of the Senior Liquidation Preference payment, the holders of shares of Series B Preferred Stock shall be entitled to receive in preference to the holders of the shares of Series A Preferred Stock and Common Stock an amount per share equal to the Issue Price for that series, plus, an amount per share equal to any dividends declared but unpaid thereon, computed to the date payment thereof is made (the "Series B Liquidation Preference Payment"). After payment of the Senior Liquidation Preference Payment and the Series B Liquidation Preference Payment, the holders of shares of Series A Preferred Stock shall be entitled to receive in preference to the holders of shares of Common Stock an amount per share equal to the Issue Price for that series, plus, an amount per share equal to any dividends declared but unpaid thereon, computed to the date payment thereof is made (the "Series A Liquidation Preference Payment"). The Senior Liquidation Preference Payment, the Series B Liquidation Preference Payment and the Series A Liquidation Preference Payment, collectively are the "Liquidation Preference Payments." If upon any liquidation, dissolution, or winding up of the Corporation, the assets to be distributed to the holders of the Preferred Stock shall be insufficient to permit payment to such shareholders of the full

preferential amounts aforesaid, then all of the assets of the Corporation available for distribution to holders of the Preferred Stock shall be distributed (i) first to holders of shares of Series D Preferred Stock and Series C Preferred Stock in proportion to their respective preferences that would have been payable in respect of the shares held by them upon such distribution if all preferences on or with respect to such shares were paid in full, (ii) then to holders of shares of Series B Preferred Stock pro rata, so that each such holder receives that proportion of the assets available for distribution as the number of shares of Series B Preferred Stock held by such holder of Series B Preferred Stock, times the Series B Liquidation Preference Payment appropriate to each share, bears to the total Series B Liquidation Preference Payments, and (iii) then to holders of shares of Series A Preferred Stock pro rata, so that each such holder receives that proportion of the assets then available for distribution to holders of Series A Preferred Stock as the number of shares of Series A Preferred Stock held by such holder of Series A Preferred Stock, times the Series A Liquidation Preference Payment appropriate to each share, bears to the total Series A Liquidation Preference Payments.

3.5.2 DISTRIBUTION OF BALANCE. Upon any liquidation, dissolution or winding up of the Corporation, immediately after the holders of Preferred Stock shall have been paid in full the Liquidation Preference Payments, the remaining net assets of the Corporation available for distribution shall be distributed ratably among the holders of the shares of Series A Preferred Stock and Common Stock in an amount per share as would have been payable had each share of Series A Preferred Stock been converted to Common Stock immediately prior to such liquidation, dissolution or winding up.

3.5.3 EQUIVALENCE OF CERTAIN MERGERS AND SALES. The (x) consolidation or merger of the Corporation into or with any other entity or entities which results in the exchange of outstanding shares of the Corporation for securities or other consideration issued or paid or caused to be issued or paid by any such entity or affiliate thereof (except a consolidation or merger into a subsidiary or merger in which the Corporation is the surviving Corporation and the holders of the Corporation's voting stock outstanding immediately prior to the transaction constitute a majority of the holders of voting stock outstanding immediately following the transaction), or (y) the sale or transfer by the Corporation of all or substantially all its assets, or (z) the sale or transfer by the Corporation's shareholders of more than 80% in voting power of the Corporation's capital stock shall be deemed to be a liquidation, dissolution or winding up of the Corporation

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within the meaning of the provisions of this Section, provided as a result of any such transaction or as an integral part of it, the Preferred Stock with respect to which payment or exchange is given or received is converted to Common Stock or otherwise retired following the payments required pursuant to this Section 3.5.

3.5.4 VALUE OF NON-CASH DISTRIBUTIONS. Whenever the distribution provided for in this Section 3.5 shall be payable in property other than cash, the value of such distribution shall be the fair market value of such property as determined in good faith by the Board of Directors of the Corporation.

3.6 REDEMPTION. The shares of Preferred Stock shall be redeemed as follows:

3.6.1 OPTIONAL REDEMPTION BY HOLDERS OF SERIES A PREFERRED STOCK. With the approval of the holders of a majority of the then outstanding shares of Series A Preferred Stock, one or more holders of shares of Series A Preferred Stock may, by giving notice (the "Series A Notice") to the Corporation at any time after March 1, 2002, require the Corporation to redeem all of the outstanding shares of Series A Preferred Stock in two installments, with up to one-half of the shares

redeemed on the First Series A Redemption Date (as defined below), and the remainder redeemed on the first anniversary of the First Series A Redemption Date (the "Second Series A Redemption Date"). The Series A Notice shall state the number of shares of Series A Preferred Stock which the Corporation shall be required to redeem in accordance with the limitations set forth in the preceding sentence. Upon receipt of the Series A Notice, the Corporation will so notify all other persons holding Series A Preferred Stock. After receipt of the Series A Notice, the Corporation shall fix the first date for redemption (the "First Series A Redemption Date"), provided that such First Series A Redemption Date shall occur within sixty (60) days after receipt of the Series A Notice. All holders of shares of Series A Preferred Stock shall deliver to the Corporation during regular business hours, at the office of any transfer agent of the Corporation for the Series A Preferred Stock, or at the principal office of the Corporation or at such other place as may be designated by the Corporation, the certificate or certificates for the Series A Preferred Stock, duly endorsed for transfer to the Corporation (if required by it) on or before the First Series A Redemption Date. Notwithstanding the foregoing, upon the receipt of the Series A Notice requiring establishment of the First Series A Redemption Date, the Corporation may, if the Board of Directors deems it to be in the best interest of the Corporation, postpone the First Series A Redemption Date to a date that is not later than one (1) year and sixty (60) days from the date of the Series A Notice.

3.6.2 OPTIONAL REDEMPTION BY HOLDERS OF SERIES B PREFERRED STOCK. With the approval of the holders of a majority of the then outstanding shares of Series B Preferred Stock, one or more holders of shares of Series B Preferred Stock may, by giving notice (the "Series B Notice") to the Corporation at any time after March 1, 2003, require the Corporation to redeem all of the outstanding shares of Series B Preferred Stock in two installments, with up to one-half of the shares redeemed on the First Series B Redemption Date (as defined below), and the remainder redeemed on the first anniversary of the First Series B Redemption Date (the "Second Series B Redemption Date"). The Series B Notice shall state the number of shares of Series B Preferred Stock which the Corporation shall be required to redeem in accordance with the limitations set forth in the preceding sentence. Upon receipt of the Series B Notice, the Corporation will so notify all other persons holding Series B Preferred Stock. After receipt of the Series B Notice, the Corporation shall fix the first date for redemption (the "First Series B

Redemption Date"), provided that such First Series B Redemption Date shall occur within sixty (60) days after receipt of the Series B Notice. All holders of shares of Series B Preferred Stock shall deliver to the Corporation during regular business hours, at the office of any transfer agent of the Corporation for the Series B Preferred Stock, or at the principal office of the Corporation or at such other place as may be designated by the Corporation, the certificate or certificates for the Series B Preferred Stock, duly endorsed for transfer to the Corporation (if required by it) on or before the First Series B Redemption Date. Notwithstanding the foregoing, upon the receipt of the Series B Notice requiring establishment of the First Series B Redemption Date, the Corporation may, if the Board of Directors deems it to be in the best interest of the Corporation, postpone the First Series B Redemption Date to a date that is not later than one (1) year and sixty (60) days from the date of the Series B Notice.

3.6.3 OPTIONAL REDEMPTION BY HOLDERS OF SERIES C PREFERRED STOCK. With the approval of the holders of a majority of the then outstanding shares of Series C Preferred Stock, one or more holders of shares of Series C Preferred Stock may, by giving notice (the "Series C Notice") to the Corporation at any time after March 1, 2004, require the Corporation to redeem all of the outstanding shares of Series C Preferred Stock in two installments, with up to one-half of the shares redeemed on the First Series C Redemption Date (as defined below), and

the remainder redeemed on the first anniversary of the First Series C Redemption Date (the "Second Series C Redemption Date"). The Series C Notice shall state the number of shares of Series C Preferred Stock which the Corporation shall be required to redeem in accordance with the limitations set forth in the preceding sentence. Upon receipt of the Series C Notice, the Corporation will so notify all other persons holding Series C Preferred Stock. After receipt of the Series C Notice, the Corporation shall fix the first date for redemption (the "First Series C Redemption Date"), provided that such First Series C Redemption Date shall occur within sixty (60) days after receipt of the Series C Notice. All holders of shares of Series C Preferred Stock shall deliver to the Corporation during regular business hours, at the office of any transfer agent of the Corporation for the Series C Preferred Stock, or at the principal office of the Corporation or at such other place as may be designated by the Corporation, the certificate or certificates for the Series C Preferred Stock, duly endorsed for transfer to the Corporation (if required by it) on or before the First Series C Redemption Date. Notwithstanding the foregoing, upon the receipt of the Series C Notice requiring establishment of the First Series C Redemption Date, the Corporation may, if the Board of Directors deems it to be in the best interest of the Corporation, postpone the First Series C Redemption Date to a date that is not later than one (1) year and sixty (60) days from the date of the Series C Notice.

3.6.4 OPTIONAL REDEMPTION BY CORPORATION OF SERIES A PREFERRED STOCK. On or after March 1, 2005, the Corporation may at its option establish a redemptiondate (the "Series A Call Redemption Date") as of which the Corporation shall redeem all, but not less than all, of the then outstanding Series A Preferred Stock. The Corporation shall give notice of the Series A Call Redemption Date to all holders of Series A Preferred Stock as provided for the First Series A Redemption Date in Section 3.6.1.

3.6.5 OPTIONAL REDEMPTION BY CORPORATION OF SERIES B PREFERRED STOCK. On or after March 1, 2006, the Corporation may at its option establish a redemption date (the "Series B Call Redemption Date") as of which the Corporation shall redeem all, but not less than all, of the then outstanding Series B Preferred Stock. The Corporation shall give notice of the Series B Call

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Redemption Date to all holders of Series B Preferred Stock as provided for the First Series B Redemption Date in Section 3.6.2.

3.6.6 OPTIONAL REDEMPTION BY CORPORATION OF SERIES C PREFERRED STOCK. On or after March 1, 2007, the Corporation may at its option establish a redemption date (the "Series C Call Redemption Date") as of which the Corporation shall redeem all, but not less than all, of the then outstanding Series C Preferred Stock. The Corporation shall give notice of the Series C Call Redemption Date to all holders of Series C Preferred Stock as provided for the First Series C Redemption Date in Section 3.6.3.

3.6.7 REDEMPTION PRICE AND PAYMENT. The First Series A Redemption Date, the Second Series A Redemption Date, the First Series B Redemption Date, the Second Series B Redemption Date, the First Series C Redemption Date, the Second Series C Redemption Date, the Series A Call Redemption Date, the Series B Call Redemption Date and the Series C Call Redemption Date are collectively referred to in this Section 3.6.7 and in Section 3.6.8 below as the Redemption Dates, and individually each is a Redemption Date. The Series A Preferred Stock to be redeemed on the Redemption Dates shall be redeemed by paying for each share in cash an amount equal to the greater of (i) the then Fair Market Value per share or (ii) $0.43 per share, plus, in the case of each share, an amount equal to all dividends declared and unpaid thereon, such amount being referred to as the "Series A Redemption Price." The Series B Preferred Stock to be redeemed on the Redemption Dates shall be redeemed by paying for each share in cash an amount equal to the greater of (i) the then Fair Market Value per share or

(ii) $1.20 per share, plus, in the case of each share, an amount equal to all dividends declared and unpaid thereon, such amount being referred to as the "Series B Redemption Price." The Series C Preferred Stock to be redeemed on the Redemption Dates shall be redeemed by paying for each share in cash an amount equal to the greater of (i) the then Fair Market Value per share or (ii) $4.68 per share, plus, in the case of each share, an amount equal to all dividends declared and unpaid thereon, such amount being referred to as the "Series C Redemption Price." Such payment of the Series A Redemption Price, Series B Redemption Price or the Series C Redemption Price shall be made in full on each of the Redemption Dates to the holders entitled thereto. The term "Fair Market Value" shall mean an amount equal to the fair market value of a share of Preferred Stock of the series being redeemed (giving effect to the value of the rights and preferences of such shares as herein provided) determined as follows: the Board of Directors of the Corporation shall endeavor in good faith to agree unanimously to the fair market value of a share of Preferred Stock of the series being redeemed. If they are unable to do so within sixty (60) days after the occurrence of an event giving rise to a need to determine that fair market value, an investment banking firm chosen by a majority of the holders of those series of Preferred Stock being redeemed and an investment banking firm chosen by the Corporation shall each calculate such value (determined after giving effect to the fees of such investment bankers). In the event the difference between such valuations is less than twenty percent (20%) of the higher valuation, then the Fair Market Value shall be deemed to be the average of such two valuations. In the event that the difference between such valuations is greater than twenty percent (20%) of the higher valuation, the two investment banking firms shall designate a third investment banking firm which shall select from the two valuations the valuation that such third firm determines to be closer to its own valuation (reduced if appropriate by the additional fees of the proceedings), and the valuation so selected shall be considered the Fair Market Value. In all events, the fees and expenses of any such investment banking firms shall be paid by the Corporation.

3.6.8 REDEMPTION MECHANICS. At least twenty (20) but not more than thirty (30) days prior to each Redemption Date, written notice (the "Redemption Notice") shall be given by the Corporation by mail, postage prepaid, or by facsimile transmission to non-U.S. residents, to each holder of record (at the close of business on the business day next preceding the day on which the Redemption Notice is given) of shares of the affected series of Preferred Stock notifying such holder of the redemption and specifying the Series A Redemption Price, Series B Redemption Price or the Series C Redemption Price, as applicable, the Redemption Date and the place where said redemption price shall be payable. The Redemption Notice shall be addressed to each holder at the holder's address as shown by the records of the Corporation. From and after the close of business on the Redemption Date, unless there shall have been a default in the payment of the applicable redemption price, all rights of holders of shares of Preferred Stock of the affected series (except the right to receive the applicable redemption price) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of the Corporation or be deemed to be outstanding for any purpose whatsoever. If the funds of the Corporation legally available for redemption of shares of the affected series of Preferred Stock on any Redemption Date are insufficient to redeem the total number of outstanding shares of that series of Preferred Stock to be redeemed on such redemption date, the holders of shares of that series of Preferred Stock shall share ratably in any funds legally available for redemption of such shares according to the respective amounts which would be payable with respect to the full number of shares owned by them if all such outstanding shares were redeemed in full, and the ratable portion of such shares whose Fair Market Value has thus been paid shall be deemed to have been redeemed. The shares of Preferred Stock of the affected series not redeemed shall remain outstanding and entitled to all rights and preferences provided herein. At any time thereafter when additional funds of the Corporation are legally available for the

redemption of such shares of Preferred Stock of the affected series, such funds will be used, at the end of the next succeeding fiscal quarter, to redeem the balance of such shares, or such portion thereof for which funds are then legally available, on the basis set forth above.

3.6.9 REDEEMED OR OTHERWISE ACQUIRED SHARES TO BE RETIRED. Any shares of Preferred Stock redeemed pursuant to this Section 3.6 or otherwise acquired by the Corporation in any manner whatsoever shall be cancelled and shall not under any circumstances be reissued; and the Corporation may from time to time take such appropriate corporate action as may be necessary to reduce accordingly the number of authorized shares of Preferred Stock.

3.7 PROTECTIVE PROVISIONS. At any time when shares of Preferred Stock are outstanding, except where the vote or written consent of the holders of a greater number of shares of the Corporation is required herein or by law, and in addition to any other vote required herein or by law, without the written consent of the holders of at least two-thirds (2/3) in interest of the then outstanding shares of Preferred Stock given in writing or by vote at a meeting and acting together as a single class (or, if the action affects one class differently than another, voting as separate classes), the Corporation will not:

3.7.1 MERGE OR CONSOLIDATE. Merge or consolidate with or into, or permit any subsidiary to merge or consolidate with or into, any other corporation, corporations, entity or entities (except a consolidation or merger into a Subsidiary or merger in which the Corporation is the surviving Corporation and the holders of the Corporation's voting stock outstanding immediately prior to the transaction constitute a majority of the holders of voting stock outstanding immediately following the transaction).

3.7.2 TRANSFER SUBSTANTIALLY ALL ASSETS. Sell, abandon, transfer, lease or otherwise dispose of all or substantially all of its properties or assets.

3.7.3 AMEND ARTICLES OR BYLAWS ADVERSELY. Amend, alter or repeal any provision of its Articles of Incorporation or Bylaws in a manner adverse to any series of Preferred Stock;

3.7.4 CREATE, RECLASSIFY, OR AUTHORIZE ADDITIONAL PREFERRED. Create or authorize the creation of any additional class or series of shares of stock, or reclassify any existing class of series of stock, unless the same ranks junior to the then-existing Preferred Stock as to voting, dividends and the distribution of assets on the liquidation, dissolution or winding up of the Corporation, or increase the authorized amount of Preferred Stock of any series or increase the authorized amount of any additional class or series of shares of stock unless the same ranks junior to the then-existing Preferred Stock as to dividends and the distribution of assets on the liquidation, dissolution or winding up of the Corporation, or create or authorize any obligation or security convertible into shares of Preferred Stock or into shares of any other class or series of stock unless the same ranks junior to the then-existing Preferred Stock as to dividends and the distribution of assets on the liquidation, dissolution or winding up of the Corporation, whether any such creation, authorization or increase shall be by means of amendment to the Articles of Incorporation or by merger, consolidation or otherwise.

3.7.5 CHANGE ARTICLES. In any manner amend, alter or change the designations or the powers, preferences or rights, privileges or the restrictions of any series of Preferred Stock adversely.

3.7.6 DISSOLVE CORPORATION. Dissolve, liquidate, or wind up the Corporation.

3.7.7 REDEEM STOCK. Repurchase, redeemn, or retire any shares of capital stock of the Corporation other than pursuant to contractual

rights to repurchase shares of Common Stock held by employees, directors or consultants of the Corporation or its subsidiaries upon termination of their employment or services or pursuant to the exercise of a contractual right of first refusal held by the Corporation.

3.8 CONVERSION. The holders of shares of Preferred Stock shall have the following conversion rights.

3.8.1 DEFINITIONS. The "Conversion Price" as used in this Section 3.8 and in Section 3.9 and as applicable to any given series of Preferred Stock means, as of the date of these Articles, the Issue Price for that series. The Conversion Price will be adjusted from time to time as this Section 3.8 and Section 3.9 require, and such adjusted Conversion Price shall be deemed to be the Conversion Price in effect at the date any shares of Preferred Stock are converted. The "Original Issue Date" with respect to any given series of Preferred Stock is the date on which shares of that series were first issued to anyone.

3.8.2 RIGHT TO CONVERT. Subject to the terms and conditions of this Section , the holder of any share or shares of Preferred Stock shall have the right, at its option at any time, to convert any such shares of Preferred Stock (except that upon any liquidation of the Corporation or any transaction contemplated in Section 3.5.3 the right of conversion shall terminate at the close

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of business on the business day fixed for payment of the amounts distributable on the Preferred Stock) into such number of fully paid and nonassessable shares of Common Stock as is obtained by (i) multiplying the number of shares of Preferred Stock of each series so to be converted by the Issue Price applicable to that series and (ii) dividing the result by the Conversion Price then applicable to that series. Such rights of conversion shall be exercised by the holder thereof by giving written notice that the holder elects to convert a stated number of shares of Preferred Stock into Common Stock and by surrender of a certificate or certificates for the shares so to be converted to the Corporation at its principal office (or such other office or agency of the Corporation as the Corporation may designate by notice in writing to the holders of the Preferred Stock) at any time during its usual business hours on the date set forth in such notice, together with a statement of the name or names (with address) in which the certificate or certificates for shares of Common Stock shall be issued.

3.8.3 ISSUANCE OF CERTIFICATES; TIME CONVERSION EFFECTED. Promptly after the receipt of the written notice referred to in Section 3.8.2 and surrender of the certificate or certificates for the share or shares of Preferred Stock to be converted, the Corporation shall issue and deliver, or cause to be issued and delivered, to the holder, registered in such name or names as such holder may direct, a certificate or certificates for the number of whole shares of Common Stock issuable upon the conversion of such share or shares of Preferred Stock. To the extent permitted by law, such conversion shall be deemed to have been effected and the Conversion Price applicable to the relevant series shall be determined as of the close of business on the date on which such written notice shall have been received by the Corporation and the certificate or certificates for such share or shares shall have been surrendered as aforesaid, and at such time the rights of the holder of such share or shares of Preferred Stock shall cease, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares represented thereby.

3.8.4 MANDATORY CONVERSION. All outstanding shares of Preferred Stock shall automatically convert to shares of Common Stock if at any time the Corporation shall effect a firm commitment underwritten public offering of shares of Common Stock in which (i) the aggregate net proceeds (prior to deduction of underwriters'

discounts, commissions and expenses) from such offering to the Corporation shall be at least $10,000,000 and (ii) the price paid by the public for such shares shall be at least $7.00 per share (except that for Series D Preferred Stock, conversion shall not be automatic unless the price paid by the public for such shares shall be at least $12.75 per share) (share prices herein identified to be appropriately adjusted to reflect the occurrence of any event described in Section 3.9.1 and Section 3.9.2), then effective upon the closing of the sale of such shares by the Corporation pursuant to such public offering, all outstanding shares of Preferred Stock shall automatically convert to shares of Common Stock. All outstanding shares of Preferred Stock of a given series shall likewise automatically convert to shares of Common Stock if at any time a majority of the total number of shares of that series of Preferred Stock originally issued by the Corporation have been converted into Common Stock through the mechanism described in Section 3.8.2.

3.8.5 FRACTIONAL SHARES; DIVIDENDS; PARTIAL CONVERSION. No fractional shares shall be issued upon conversion of Preferred Stock into Common Stock and no payment or adjustment shall be made upon any conversion on account of any cash dividends on the Common Stock issued upon such conversion. Subject to the provisions of Section 3.5, at the time of each conversion, the Corporation shall: (i) if cash is legally available, pay in cash an amount equal to all dividends

accrued and unpaid on the shares of Preferred Stock surrendered for conversion to the date upon which such conversion is deemed to take place as provided in Section 3.8.3 or Section 3.8.4, or (ii) if cash is not then legally available, pay such dividends if and when such cash does become legally available. In case the number of shares of Preferred Stock represented by the certificate or certificates surrendered pursuant to Section 3.8.2 exceeds the number of shares converted, the Corporation shall, upon such conversion, execute and deliver to the holder, at the expense of the Corporation, a new certificate or certificates for the number of shares of Preferred Stock represented by the certificate or certificates surrendered which are not to be converted. If any fractional share of Common Stock would, except for the provisions of the first sentence of this Section 3.8.5, be delivered upon such conversion, the Corporation, in lieu of delivering such fractional share, shall pay to the holder surrendering the Preferred Stock for conversion an amount in cash equal to the current market price of such fractional share as determined in good faith by the Board of Directors of the Corporation, and based upon the aggregate number of Shares of Preferred Stock surrendered by any one holder.

3.9 CONVERSION PRICE ADJUSTMENTS.

3.9.1 ADJUSTMENTS FOR STOCK SPLITS AND COMBINATIONS. If the Corporation shall at any time or from time to time after Original Issue Date effect a subdivision of the outstanding Common Stock without a corresponding subdivision of that series of Preferred Stock, the Conversion Price for that series in effect immediately before that subdivision shall be proportionately decreased. Conversely, if the Corporation shall at any time or from time to time after the Original Issue Date combine the outstanding shares of Common Stock in to a smaller number of shares without a corresponding combination of a given series of Preferred Stock, the Conversion Price for that series in effect immediately before the combination shall be proportionately increased. Any adjustment under this section 3.9.1 shall become effective at the close of business on the date the subdivision or combination becomes effective.

3.9.2 ADJUSTMENTS FOR COMMON STOCK DIVIDENDS AND DISTRIBUTIONS. If the Corporation at any time or from time to time after the Original Issue Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, in each such event the Conversion Price that is then in effect

shall be decreased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by multiplying the Conversion Price then in effect by a fraction (1) the numerator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and (2) the denominator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant to this Section 3.9.2 to reflect the actual payment of such dividend or distribution.

3.9.3 ADJUSTMENTS FOR OTHER DIVIDENDS AND DISTRIBUTIONS. If the Corporation at any time or from time to time after the Original Issue Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution

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payable in securities of the Corporation other than shares of Common Stock, in each such event provision shall be made so that the holders of the Preferred Stock shall receive upon conversion thereof, in addition to the number of shares of Common Stock receivable thereupon, the amount of other securities of the Corporation which they would have received had their Preferred Stock been converted into Common Stock on the date of such event and had they thereafter, during the period from the date of such event to and including the conversion date, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Section 3.9 with respect to the rights of the holders of the Preferred Stock or with respect to such other securities by their terms.

3.9.4 ADJUSTMENT FOR RECLASSIFICATION, EXCHANGE AND SUBSTITUTION. If at any time or from time to time after the Original Issue Date, the Common Stock issuable upon the conversion of the Preferred Stock is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than through a consolidation or merger qualifying for purposes of Section 3.5.3 or a subdivision or combination of shares or stock dividend or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this Section 3.9), in any such event each holder of Preferred Stock shall have the right thereafter to convert such stock into the kind and amount of stock and other securities and property receivable upon such recapitalization, reclassification or other change by holders of the maximum number of shares of Common Stock into which such shares of Preferred Stock could have been converted immediately prior to such recapitalization, reclassification or change, all subject to further adjustment as provided herein or with respect to such other securities or property by the terms thereof.

3.9.5 REORGANIZATIONS, MERGERS, CONSOLIDATIONS OR SALES OF ASSETS. If at any time or from time to time after the Original Issue Date, there is a capital reorganization of the Common Stock (other than a transaction qualifying for purposes of Section 3.5.3 or a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares provided for elsewhere in this Section 3.9), as a part of such capital reorganization, provision shall be made so that the holders of the Preferred Stock shall thereafter be entitled to receive upon conversion of the Preferred Stock the number of shares of stock or other securities or property of the Corporation to which a holder of the number of shares of Common Stock deliverable upon conversion would have been entitled on such capital reorganization,

subject to adjustment in respect of such stock or securities by the terms thereof. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 3.9 with respect to the rights of the holders of Preferred Stock after the capital reorganization to the end that the provisions of this Section 3.9 (including adjustment of the Conversion Price then in effect and the number of shares issuable upon conversion of the Preferred Stock) shall be applicable after that event and be as nearly equivalent as practicable.

3.9.6 WEIGHTED AVERAGE ANTIDILUTION ADJUSTMENT. If the Corporation at any time after the effective date of these Fourth Amended and Restated Articles of Incorporation shall issue any Additional Stock (as defined below) without consideration or for a consideration per share less than the Conversion Price for any given series of Preferred Stock then in effect (the "Old Conversion Price",) the Conversion Price applicable to each such series shall be adjusted or readjusted, as follows.

(a) CALCULATION. The Conversion Price for each series of Preferred Stock affected shall be adjusted to be equal to (i) the sum of: the "Old Stock" times the Old Conversion Price, and the New Consideration; (i) divided by the sum of the "Old Stock" and the "New Stock." "Old Stock" is the number of shares of Common Stock outstanding immediately prior to such issue or sale (including all Additional Stock previously deemed issued), plus the total number of shares of Common Stock that would be issued upon conversion of all outstanding Preferred Stock, before any adjustment in Conversion Price associated with such issue or sale, plus the total number of shares of stock issuable on the exercise of any options then granted and outstanding. The "New Stock" is the number of common equivalent shares actually issued (or deemed issued) in the transaction giving rise to the adjustment in the Conversion Price. The "New Consideration" is the aggregate consideration received by the Corporation for the New Stock.

(b) SIMPLIFYING DELAY. No adjustment of the Conversion Price for Preferred Stock shall be made in an amount less than one cent per share, provided that any adjustments which are not required to be made by reason of this sentence shall be carried forward and taken into account in any subsequent adjustment.

(c) DEFINING "ADDITIONAL STOCK." "Additional Stock" shall mean any shares of Common Stock issued, or deemed issued under the rules of this Section 3.9.6, by the Corporation after the effective date of these Fifth Amended and Restated Articles of Incorporation other than "Reserved Shares." "Reserved Shares" are defined as follows:

(A) Common Stock issued pursuant to a transaction described in Sections 3.9.1 through 3.9.5, upon conversion of Preferred Stock, or upon exercise of any warrants to purchase common stock outstanding prior to the date of these Fourth Amended and Restated Articles of Incorporation;

(B) Up to 3,900,000 shares of Common Stock issued to employees, consultants, directors or advisory board members of the Corporation primarily for the purpose of soliciting or retaining their employment directly or pursuant to a stock option plan or restricted stock plan approved by the shareholders and directors of the Corporation, or such higher number of shares as may be approved from time to time by a majority of the Board of Directors including the affirmative consent of a majority of all directors entitled to be elected by the holders of one or more series of Preferred Stock, with respect to such series, or shares reissued after repurchase pursuant to any restricted stock purchase agreement following a termination in status as an employee, consultant, director, or advisory board member; and

(C) Common Stock issued in equipment lease financing or otherwise issued or issuable in standard commercial line of credit transactions approved by a majority of the Board of Directors in good faith, which majority shall include the affirmative consent of a majority of all directors entitled to be elected by the holders of one or more series of Preferred Stock, with respect to such series.

(d) ISSUANCE OF RIGHTS OR OPTIONS. In case at any time the Corporation shall in any manner grant (whether directly or by assumption in a merger or otherwise) any warrants or other rights to subscribe for or to purchase, or any options for the purchase

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of, Common Stock or any stock or security convertible into or exchangeable for Common Stock (such warrants, rights or options being called "Options" and such convertible or exchangeable stock or securities being called "Convertible Securities") whether or not such Options or the right to convert or exchange any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such Options or upon the conversion or exchange of such Convertible Securities (determined by dividing (i) the total amount, if any, received or receivable by the Corporation as consideration for the granting of such Options, plus the minimum aggregate amount of additional consideration payable to the Corporation upon the exercise of all such Options, plus, in the case of such Options which relate to Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the issue or sale of such Convertible Securities and upon the conversion or exchange thereof, by (ii) the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such Options) shall be less than the Conversion Price for any given series of Preferred Stock in effect immediately prior to the time of the granting of such Options, then the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities issuable upon the exercise of such Options shall be deemed to have been issued for such price per share as of the date of granting of such Options or the issuance of such Convertible Securities and thereafter shall be deemed to be outstanding. Except as otherwise provided in Section 3.9.6(f), no adjustment of the Conversion Price shall be made upon the actual issue of such Common Stock or of such Convertible Securities upon exercise of such Options or upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities.

(e) ISSUANCE OF CONVERTIBLE SECURITIES. In case the Corporation shall in any manner issue (whether directly or by assumption in a merger or otherwise) or sell any Convertible Securities, whether or not the rights to exchange or convert any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon such conversion or exchange (determined by dividing (i) the total amount received or receivable by the Corporation as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Corporation upon the conversion or exchange thereof, by (ii) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities) shall be less than the Conversion Price for any given series of Preferred Stock in effect immediately prior to the time of such issue or sale, then the total maximum number of shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities shall be deemed to have been issued for such price per share as of the date of the

issue or sale of such Convertible Securities and thereafter shall be deemed to be outstanding, provided that (a) except as otherwise provided in Section 3.9.6(f), no adjustment of the Conversion Price shall be made upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities and (b) if any such issue or sale of such Convertible Securities is made upon exercise of any Options to purchase any such Convertible Securities for which adjustments of the Conversion Price for any given series of Preferred Stock have been or are to be made pursuant to other provisions of these Articles, no

further adjustment of the Conversion Price for that series shall be made by reason of such issue or sale.

(f) CHANGE IN OPTION PRICE OR CONVERSION RATE. Upon the happening of any of the following events, namely, if the purchase price provided for in any Option referred to in Section 3.9.6(d), the additional consideration, if any, payable upon the conversion or exchange of any Convertible Securities referred to in Section 3.9.6(d) or 3.9.6(e), or the rate at which Convertible Securities referred to in Sections 3.9.6(d) or 3.9.6(e) are convertible into or exchangeable for Common Stock shall change at any time (including, but not limited to, changes under or by reason of provisions designed to protect against dilution), the Conversion Price for any series of Preferred Stock in effect at the time of such event shall forthwith be readjusted to the Conversion Price which would have been in effect for that series at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold; and on the expiration of any such Option or the termination of any such right to convert or exchange such Convertible Securities, the Conversion Price then in effect hereunder for any series of Preferred Stock as to which the instrument in question had previously caused an adjustment shall forthwith be increased to the Conversion Price which would have been in effect at the time of such expiration or termination had such Option or Convertible Securities, to the extent outstanding immediately prior to such expiration or termination, never been issued.

(g) CONSIDERATION FOR STOCK. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Corporation therefor, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Corporation in connection therewith. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Corporation shall be deemed to be the fair value of such consideration as determined in good faith by the Board of Directors of the Corporation, without deduction of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Corporation in connection therewith. In case any Options shall be issued in connection with the issue and sale of other securities of the Corporation, together comprising one integral transaction in which no specific consideration is allocated to such Options by the parties thereto, such Options shall be deemed to have been issued for such consideration as determined in good faith by the Board of Directors of the Corporation.

(h) RECORD DATE. In case the Corporation shall take a record of the holders of its Common Stock for the purpose of entitling them to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date shall be deemed

to be the date of the granting of such right of subscription or purchase.

3.10 NOTICE OF ADJUSTMENT. Upon any adjustment of the Conversion Price, then and in each such case the Corporation shall give written notice thereof, by first class mail, postage prepaid, or by facsimile transmission to non-U.S. residents, addressed to each holder of shares of Preferred Stock affected by the adjustment at the address of such holder as shown on the books of the Corporation, which notice

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shall state the Conversion Price resulting from such adjustment, setting forth in reasonable detail the method upon which such calculation is based.

3.11 STOCK TO BE RESERVED. The Corporation will at all times reserve and keep available out of its authorized Common Stock, solely for the purpose of issuance upon the conversion of Preferred Stock as herein provided, such number of shares of Common Stock as shall then be issuable upon the conversion of all outstanding shares of Preferred Stock. The Corporation covenants that all shares of Common Stock which shall be so issued shall be duly and validly issued and fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof, and, without limiting the generality of the foregoing, the Corporation covenants that it will from time to time take all such action as may be requisite to assure that the par value per share of the Common Stock is at all times equal to or less than the Conversion Price in effect at the time for any given series of Preferred Stock. The Corporation will take all such action as may be necessary to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirement of any national securities exchange upon which the Common Stock may be listed.

3.12 NO REISSUANCE OF PREFERRED STOCK. Shares of a particular series of Preferred Stock which are converted into shares of Common Stock as provided herein shall not be reissued, unless redesignated through procedures provided for in Section 2.3.

3.13 ISSUE TAX. The issuance of certificates for shares of Common Stock upon conversion of Preferred Stock shall be made without charge to the holders thereof for any issuance tax in respect thereof, provided that the Corporation shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the holder of the Preferred Stock which is being converted.

3.14 CLOSING OF BOOKS. The Corporation will at no time close its transfer books against the transfer of any Preferred Stock or of any shares of Common Stock issued or issuable upon the conversion of any shares of Preferred Stock in any manner which interferes with the timely conversion of such Preferred Stock, except as may otherwise be required to comply with applicable securities laws.

ARTICLE 4.

DIRECTORS

4.1 NUMBER OF DIRECTORS. The number of directors of the Corporation shall be not less than three nor more than twelve, and within such limits, the exact number shall be fixed and increased or decreased from time to time by resolution of the Board of Directors.

4.2 ELECTION OF DIRECTORS. If the number of directors is fixed by the Board of Directors at six or more, the directors shall be divided into three classes designated Class I, Class II and Class III, each class to be as nearly equal in number as possible. At the next annual meeting of shareholders following that designation ("First Meeting"), directors of all three classes shall be elected. The term of office of Class I directors shall expire at the first annual meeting of shareholders following their election. The terms of Class II directors shall expire at the second annual meeting of shareholders following their election. The terms of the Class III directors shall expire at the third annual meeting of shareholders following their

election. At each annual meeting of shareholders after the First Meeting, each class of directors elected to succeed those

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directors whose terms expire shall be elected to serve for three-year terms and until their successors are elected and qualified, so that the term of one class of directors will expire each year. When the number of directors is changed within the limits provided herein, any newly created directorships, or any decrease in directorships, shall be so apportioned among the classes as to make all classes as nearly equal as possible, provided that no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent directors.

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

4.4 AMENDMENT OF ARTICLE. The provisions of this Article 4 may not be amended, altered, changed or repealed in any respect unless such action is approved by the affirmative vote of not less than 75 percent of the votes then entitled to be cast for election of directors.

ARTICLE 5.

EXCLUSION OF DIRECTOR LIABILITY.

No director of the Corporation shall be personally liable to the Corporation or its shareholders for monetary damages for conduct as a director; provided that this Article 5 shall not eliminate the liability of a director for any act or omission for which such elimination of liability is not permitted under the Oregon Business Corporation Act. No amendment to the Oregon Business Corporation Act that further limits the acts or omissions for which elimination of liability is permitted shall affect the liability of a director for any act or omission that occurs prior to the effective date of such amendment.

ARTICLE 6.

INDEMNIFICATION OF DIRECTORS, OFFICERS, & FIDUCIARIES.

6.1 INDEMNIFICATION. The Corporation shall indemnify to the fullest extent not prohibited by law any person who was or is a party or is threatened to be made a party to any Proceeding (as defined below) against all expenses (including attorney fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by the person in connection with such Proceeding.

6.2 ADVANCEMENT OF EXPENSES. Expenses incurred by a director or officer of the Corporation in defending a Proceeding shall in all cases be paid by the Corporation in advance of the final disposition of such Proceeding at the written request of such person, if the person:

6.2.1 furnishes the Corporation a written affirmation of the person's good faith belief that such person has met the standard of conduct

described in the Oregon Business Corporation Act or is entitled to be indemnified by the Corporation under any other indemnification rights granted by the Corporation to such person; and

6.2.2 furnishes the Corporation a written undertaking to repay such advance to the extent it is ultimately determined by a court that such person is not entitled to be indemnified by the Corporation under this Article 6 or under any other indemnification rights granted by the Corporation to such person.

Such advances shall be made without regard to the person's ability to repay such advances and without regard to the person's ultimate entitlement to indemnification under this Article 6 or otherwise.

6.3 DEFINITION OF PROCEEDING. The term "Proceeding" shall include any threatened, pending, or completed action, suit, or proceeding, whether brought in the right of the corporation or otherwise and whether of a civil, criminal, administrative, or investigative nature, in which a person may be or may have been involved as a party or otherwise by reason of the fact that the person is or was a director or officer of the corporation or a fiduciary within the meaning of the Employee Retirement Income Security Act of 1974 with respect to any employee benefit plan of the corporation, or is or was serving at the request of the corporation as a director, officer, or fiduciary of an employee benefit plan of another corporation, partnership, joint venture, trust, or other enterprise, whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification or advancement of expenses can be provided under this Article 6.

6.4 NON-EXCLUSIVITY AND CONTINUITY OF RIGHTS. This Article 6: (i) shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any statute, agreement, general or specific action of the board of directors, vote of shareholders or otherwise, both as to action in the official capacity of the person indemnified and as to action in another capacity while holding office, (ii) shall continue as to a person who has ceased to be a director or officer, (iii) shall inure to the benefit of the heirs, executors, and administrators of such person, and (iv) shall extend to all claims for indemnification or advancement of expenses made after the adoption of this Article 6.

6.5 AMENDMENTS. Any repeal of this Article 6 shall only be prospective and no repeal or modification hereof shall adversely affect the rights under this Article 6 in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any Proceeding.

ARTICLE 7.

SHAREHOLDER APPROVAL OF CERTAIN CORPORATE ACTIONS.

No agreement of merger or consolidation of this corporation which requires shareholder approval under the Oregon Business Corporation Act shall be approved or become effective unless the holders of not less than sixty-seven percent (67%) of the outstanding shares of the corporation entitled to vote thereon shall vote for the adoption of the agreement. This corporation shall not sell, lease or exchange all or substantially all of its property and assets unless the holders of not less than sixty-seven percent (67%) of the outstanding shares of the corporation entitled to vote thereon shall vote for such sale, lease or exchange.

Dissolution or liquidation of the corporation shall require the prior approval of holders of not less than sixty-seven percent (67%) of the outstanding shares of the corporation entitled to vote thereon.

EXHIBIT 3.2

SIXTH AMENDED AND RESTATED ARTICLES OF INCORPORATION OF PIXELWORKS, INC.

Pursuant to the Oregon Business Corporation Act (ORS Chapter 60), PixelWorks, Inc. hereby adopts the following Sixth Amended and Restated Articles of Incorporation, which shall supersede the heretofore existing Fifth Restated Articles of Incorporation and all previous amendment and restatements thereof.

ARTICLE 1.

NAME.

The name of the Corporation is Pixelworks, Inc.

ARTICLE 2.

SHARES AND RIGHTS THEREOF GENERALLY.

2.1 AUTHORIZED STOCK. The aggregate number of shares which the corporation shall have authority to issue is 250,000,000 shares of common stock with a par value of $0.001 per share ("Common Stock") , and 50,000,000 shares of preferred stock with a par value of $0.001 per share (Preferred Stock").

2.2 RIGHTS OF COMMON STOCK. The shares of common stock have unlimited voting rights and are entitled to receive the net assets of the Corporation on dissolution, subject to rights of the Preferred Stock.

2.3 AUTHORITY TO DESIGNATE SERIES PREFERRED. The Board of Directors is hereby authorized to fix or alter the rights, preferences, privileges and restrictions granted to or imposed upon additional series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or of any of them. Subject to compliance with applicable protective voting rights or consent rights which have been or may be granted to the Preferred Stock or any series thereof herein, by law, or in Articles of Amendment adopted by the Board of Directors ("Protective Provisions"), but notwithstanding any other rights of the Preferred Stock or any series thereof, the rights, privileges, preferences and restrictions of any such additional series may be subordinated to, made PARI PASSU with (including, without limitation, inclusion in provisions with respect to liquidation and acquisition preferences, redemption and/or approval of matters by vote or written consent), or made senior to any of those of any present or future class of series of Preferred or Common Stock. Subject to compliance with applicable Protective Provisions, the Board of Directors is also authorized to increase or decrease the number of shares of any series, prior or subsequent to the issue of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the

status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

ARTICLE 3.

DIRECTORS.

3.1 NUMBER OF DIRECTORS. The number of directors of the Corporation shall be not less than three nor more than twelve, and within such limits, the exact number shall be fixed and increased or decreased from time to time by resolution of the Board of Directors.

3.2 ELECTION OF DIRECTORS. If the number of directors is fixed by the

Board of Directors at six or more, the directors shall be divided into three classes designated Class I, Class II and Class III, each class to be as nearly equal in number as possible. At the next annual meeting of shareholders following that designation ("First Meeting"), directors of all three classes shall be elected. The term of office of Class I directors shall expire at the first annual meeting of shareholders following their election. The terms of Class II directors shall expire at the second annual meeting of shareholders following their election. The terms of the Class III directors shall expire at the third annual meeting of shareholders following their election. At each annual meeting of shareholders after the First Meeting, each class of directors elected to succeed those directors whose terms expire shall be elected to serve for three-year terms and until their successors are elected and qualified, so that the term of one class of directors will expire each year. When the number of directors is changed within the limits provided herein, any newly created directorships, or any decrease in directorships, shall be so apportioned among the classes as to make all classes as nearly equal as possible, provided that no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent directors.

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

3.4 AMENDMENT OF ARTICLE. The provisions of this Article 3 may not be amended, altered, changed or repealed in any respect unless such action is approved by the affirmative vote of not less than 75 percent of the votes then entitled to be cast for election of directors.

ARTICLE 4.

EXCLUSION OF DIRECTOR LIABILITY.

No director of the Corporation shall be personally liable to the Corporation or its shareholders for monetary damages for conduct as a director; provided that this Article 4 shall not eliminate the liability of a director for any act or omission for which such elimination of liability is not permitted under the Oregon Business Corporation Act. No amendment to the Oregon Business Corporation Act that further limits the acts or omissions for which elimination of liability is permitted shall affect the liability of a director for any act or omission that occurs prior to the effective date of such amendment.

ARTICLE 5.

INDEMNIFICATION OF DIRECTORS, OFFICERS, & FIDUCIARIES.

5.1 INDEMNIFICATION. The Corporation shall indemnify to the fullest extent not prohibited by law any person who was or is a party or is threatened to be made a party to any Proceeding (as defined below) against all expenses (including attorney fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by the person in connection with such Proceeding.

5.2 ADVANCEMENT OF EXPENSES. Expenses incurred by a director or officer of the Corporation in defending a Proceeding shall in all cases be paid by the Corporation in advance of the final disposition of such Proceeding at the written request of such person, if the person:

5.2.1 furnishes the Corporation a written affirmation of the person's good faith belief that such person has met the standard of conduct described in the Oregon Business Corporation Act or is entitled to be indemnified by the

Corporation under any other indemnification rights granted by the Corporation to such person; and

5.2.2 furnishes the Corporation a written undertaking to repay such advance to the extent it is ultimately determined by a court that such person is not entitled to be indemnified by the Corporation under this Article 5 or under any other indemnification rights granted by the Corporation to such person.

Such advances shall be made without regard to the person's ability to repay such advances and without regard to the person's ultimate entitlement to indemnification under this Article 5 or otherwise.

5.3 DEFINITION OF PROCEEDING. The term "Proceeding" shall include any threatened, pending, or completed action, suit, or proceeding, whether brought in the right of the corporation or otherwise and whether of a civil, criminal, administrative, or investigative nature, in which a person may be or may have been involved as a party or otherwise by reason of the fact that the person is or was a director or officer of the corporation or a fiduciary within the meaning of the Employee Retirement Income Security Act of 1974 with respect to any employee benefit plan of the corporation, or is or was serving at the request of the corporation as a director, officer, or fiduciary of an employee benefit plan of another corporation, partnership, joint venture, trust, or other enterprise, whether or not serving in such capacity at the time any

liability or expense is incurred for which indemnification or advancement of expenses can be provided under this Article 5.

5.4 NON-EXCLUSIVITY AND CONTINUITY OF RIGHTS. This Article 5: (i) shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any statute, agreement, general or specific action of the board of directors, vote of shareholders or otherwise, both as to action in the official capacity of the person indemnified and as to action in another capacity while holding office, (ii) shall continue as to a person who has ceased to be a director or officer, (iii) shall inure to the benefit of the heirs, executors, and administrators of such person, and (iv) shall extend to all claims for indemnification or advancement of expenses made after the adoption of this Article 5.

5.5 AMENDMENTS. Any repeal of this Article 5 shall only be prospective and no repeal or modification hereof shall adversely affect the rights under this Article 5 in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any Proceeding.

ARTICLE 6.

SHAREHOLDER APPROVAL OF CERTAIN CORPORATE ACTIONS.

No agreement of merger or consolidation of this corporation which requires shareholder approval under the Oregon Business Corporation Act shall be approved or become effective unless the holders of not less than sixty-seven percent (67%) of the outstanding shares of the corporation entitled to vote thereon shall vote for the adoption of the agreement. This corporation shall not sell, lease or exchange all or substantially all of its property and assets unless the holders of not less than sixty-seven percent (67%) of the outstanding shares of the corporation entitled to vote thereon shall vote for such sale, lease or exchange. Dissolution or liquidation of the corporation shall require the prior approval of holders of not less than sixty-seven percent (67%) of the outstanding shares of the corporation entitled to vote thereon.

EXHIBIT 5.1

Ater Wynne LLP
222 SW Columbia, Suite 1800
Portland, Oregon 97201
503-226-1191 (Phone)
503-226-0079 (fax)

April 5, 2000

Board of Directors
Pixelworks, Inc.
7700 SW Mohawk Street
Tualatin, OR 97062

Re: Pixelworks, Inc.

Gentlemen:

In connection with the public offering of up to 6,612,500 shares of common stock, par value $0.001 per share of Pixelworks, Inc., an Oregon corporation (the "Company"), under the Registration Statement on Form S-1, SEC File No. 333-31134 (the "Registration Statement"), and the proposed sale of the common stock pursuant to the terms of an underwriting agreement to be entered into by and among the Company and Salomon Smith Barney, Deutsche Banc Alex Brown, SG Cowen and E*Offering, as representatives of the several underwriters, we have examined such corporate records, certificates of public officials and officers of the Company and other documents as we have considered necessary or proper for the purpose of this opinion.

Based on the foregoing and having regard to legal issues which we deem relevant, it is our opinion that the shares of common stock being registered under the Registration Statement to be issued and sold pursuant to the underwriting agreement, when such shares have been delivered against payment therefor as contemplated by the underwriting agreement, will be validly issued, fully paid and non-assessable.

We hereby consent to the filing of this opinion as an exhibit to the above-mentioned Registration Statement and to the reference to this firm under the caption "Legal Matters" in the prospectus constituting a part of the Registration Statement. In giving such consent, we do not hereby admit that we are in the category of persons whose consent is required to be filed pursuant to Section 7 of the Securities Act of 1933, as amended, or the rules thereunder.

Very truly yours,

/s/ Ater Wynne LLP

ATER WYNNE LLP

EXHIBIT 10.6

PIXELWORKS, INC.

2000 EMPLOYEE STOCK PURCHASE PLAN

The following constitute the provisions of the 2000 Employee Stock Purchase Plan of Pixelworks, Inc.

1. PURPOSE. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. DEFINITIONS.

(a) "BOARD" shall mean the Board of Directors of the Company.

(b) "CODE" shall mean the Internal Revenue Code of 1986, as amended.

(c) "COMMON STOCK" shall mean the common stock of the Company.

(d) "COMPANY" shall mean Pixelworks, Inc., an Oregon corporation, and any Designated Subsidiary of the Company.

(e) "COMPENSATION" shall mean all base straight time gross earnings and commissions, but exclusive of payments for overtime, shift premium, incentive compensation, incentive payments, bonuses and other compensation.

(f) "DESIGNATED SUBSIDIARY" shall mean any Subsidiary which has been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(g) "EMPLOYEE" shall mean any individual who is an Employee of the Company for tax purposes whose customary employment with the Company is at least twenty (20) hours per week and more than five (5) months in any calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company. Where the period of leave exceeds 90 days and the individual's right to re-employment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave.

(h) "ENROLLMENT DATE" shall mean the first Trading Day of each Offering Period.

(i) "EXERCISE DATE" shall mean the last Trading Day of each Purchase Period.

(j) "FAIR MARKET VALUE" shall mean, as of any date, the value of Common Stock determined as follows:

(1) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day on or before the date of such determination, as reported in The Wall Street Journal or such other source as the Board deems reliable;

(2) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock for the last quotation day on or before the date of such determination, as reported in The

Wall Street Journal or such other source as the Board deems reliable;

(3) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board; or

(4) For purposes of the Enrollment Date of the first Offering Period under the Plan, the Fair Market Value shall be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company's Common Stock (the "Registration Statement").

(k) "OFFERING PERIODS" shall mean the periods of approximately twenty-four (24) months during which an option granted pursuant to the Plan may be exercised, commencing on the first Trading Day on or after February 1 and August 1 of each year and terminating on the last Trading Day in the periods ending twenty-four months later, PROVIDED, HOWEVER, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and ending on the last Trading Day on or before January 31, 2002. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan.

(l) "PLAN" shall mean this 2000 Employee Stock Purchase Plan.

(m) "PURCHASE PERIOD" shall mean the approximately six month period commencing after one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period shall commence on the Enrollment Date and end with the next Exercise Date.

(n) "PURCHASE PRICE" shall mean 85% of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower; PROVIDED HOWEVER, that the Purchase Price may be adjusted by the Board pursuant to Section 20.

(o) "RESERVES" shall mean the number of shares of Common Stock covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

(p) "SUBSIDIARY" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

(q) "TRADING DAY" shall mean a day on which national stock exchanges and the Nasdaq System are open for trading.

3. ELIGIBILITY

(a) Any Employee who shall be employed by the Company on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries accrues at a rate which exceeds Twenty-Five Thousand Dollars ($25,000) worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. OFFERING PERIODS. The Plan shall be implemented by consecutive, overlapping Offering Periods with a new Offering Period commencing on the first Trading Day on or after February 1 and August 1 each year, or on such other date

as the Board shall determine, and continuing thereafter until terminated in accordance with Section 20 hereof, PROVIDED, HOWEVER, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and ending on the last Trading Day on or before January 31, 2002. The Board shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without shareholder approval if such change is announced at least five (5) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. PARTICIPATION.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll. deductions in the form of Exhibit A to this Plan and filing it with the Company's payroll office prior to the applicable Enrollment Date.

(b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

6. PAYROLL DEDUCTIONS.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in one percent (1%) increments of not less than two percent (2%) or greater than ten percent (10%) of the Compensation which he or she receives on each pay day during the Offering Period.

(b) All payroll deductions made for a participant shall be credited to his or her account under the Plan and shall be withheld in whole percentages only. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, or may increase or decrease the rate of his or her payroll deductions during the Offering Period by completing or filing with the Company a new subscription agreement authorizing a change in payroll deduction rate. The Board may, in its discretion, limit the number of participation rate changes during any Offering Period. The change in rate shall be effective with the first full payroll period following five (5) business days after the Company's receipt of the new subscription agreement unless the Company elects to process a given change in participation more quickly. A participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be decreased to zero percent (0%) at any time during a Purchase Period. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Purchase Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.

(e) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any

withholding required to make available to the Company any tax deductions or

benefits attributable to sale or early disposition of Common Stock by the Employee.

7. GRANT OF OPTION. On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of the Company's Common Stock determined by dividing such Employees payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Employee be permitted to purchase during each Purchase Period more than two thousand five hundred (2,500) shares of the Company's Common Stock (subject to any adjustment pursuant to Section 19), and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b), 8(b) and 12 hereof. The Board may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of the Company's Common Stock an Employee may purchase during each Purchase Period of such Offering Period. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The option shall expire on the last day of the Offering Period.

8. EXERCISE OF OPTION.

(a) Unless a participant withdraws from the Plan as provided in Section 10 hereof, his or her option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account; provided that in no event shall an Employee be permitted to purchase during each Purchase Period more than two hundred percent (200%) of the number of shares that the Employee could purchase if the Purchase Price was limited to eight-five percent (85%) of the Fair Market Value of a share of Common Stock on the Enrollment Date. No fractional shares shall be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the participant as provided in Section l0 hereof. Any other monies leftover in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

(b) If the Board determines that, on a given Exercise Date, the number of shares with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Enrollment Date of the applicable Offering Period, or (ii) the number of shares available for sale under the Plan on such Exercise Date, the Board may in its sole discretion (x) provide that the Company shall make a pro rata allocation of the shares of Common Stock available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect, or (y) provide that the Company shall make a pro rata allocation of the shares available for purchase on such Enrollment Date or Exercise Date,

as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and terminate any or all Offering Periods then in effect pursuant to Section 20 hereof. The Company may make pro rata allocation of the shares available on the Enrollment Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's shareholders subsequent to such Enrollment Date.

9. DELIVERY. As promptly as practicable after each Exercise Date on which a purchase of shares occurs, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of his or her option.

10. WITHDRAWAL.

(a) A participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by giving written notice to the Company in the form of Exhibit B to this Plan. All of the participants payroll deductions credited to his or her account shall be paid to such participant promptly after receipt of notice of withdrawal and such participants option for the Offering Period shall be automatically terminated, and no further payroll deductions for the purchase of shares shall be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement.

(b) A participants withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.

11. TERMINATION OF EMPLOYMENT.

Upon a participant's ceasing to be an Employee, for any reason, he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the Offering Period but not yet used to exercise the option shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15 hereof, and such participant's option shall be automatically terminated. The preceding sentence notwithstanding, a participant who receives payment in lieu of notice of termination of employment shall be treated as continuing to be an Employee for the participant's customary number of hours per week of employment during the period in which the participant is subject to such payment in lieu of notice.

12. INTEREST. No interest shall accrue on the payroll deductions of a participant in the Plan.

13. STOCK.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be one million (1,000,000) shares, plus an annual increase to be added on the first day of the Company's fiscal year beginning in 2005 equal to the lesser of (i) the number of shares of Common Stock issued pursuant to the Plan during the immediately preceding fiscal year of the Company, (ii) two percent (2%) of the outstanding shares of Common Stock on the first day of the Company's fiscal year for which the increase is being made or (iii) a lesser amount determined by the Board.

(b) The participant shall have no interest or voting right in shares covered by his option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan shall be registered in the name of the participant or in the name of the participant and his or her spouse.

14. ADMINISTRATION. The Plan shall be administered by the Board or a committee of members of the Board appointed by the Board. The Board or its committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claim filed under the Plan. Every finding, decision and determination made by the Board or its committee shall to the full extent permitted by law, be final and binding upon all parties.

15. DESIGNATION OF BENEFICIARY.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant' s account under the Plan in the event of such participant's death subsequent to an Exercise Date

on which the option is exercised but prior to delivery to such participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. TRANSFERABILITY. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and

distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. USE OF FUNDS. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. REPORTS. Individual accounts shall be maintained for each participant in the Plan. Statements of account shall be given to participating Employees at least annually, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

19. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION, DISSOLUTION, LIQUIDATION, MERGER OF ASSET SALE

(a) CHANGES IN CAPITALIZATION. Subject to any required action by the shareholders of the Company, the Reserves, the maximum number of shares each participant may purchase each Purchase Period (pursuant to Section 7), as well as the price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company, provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

(b) DISSOLUTION OR LIQUIDATION. In the event of the proposed dissolution or liquidation of the Company, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date"), and shall terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Board. The New Exercise Date shall be before the date of the Company's proposed dissolution or liquidation. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period

as provided in Section 10 hereof.

(c) MERGER OR ASSET SALE. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each outstanding option shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, any Purchase Periods then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date") and any Offering Periods then in progress shall end on the New Exercise Date. The New Exercise Date shall be before the date of the Company's proposed sale or merger. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

20. AMENDMENT OR TERMINATION.

(a) The Board of Directors of the Company may at any time and for any reason terminate or amend the Plan. Except as provided in Section 19 hereof, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Board of Directors on any Exercise Date if the Board determines that the termination of the Offering Period or the Plan is in the best interests of the Company and its shareholders. Except as provided in Section 19 and this Section 20 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule), the Company shall obtain shareholder approval in such a manner and to such a degree as required.

(b) Without shareholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

(c) In the event the Board determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including, but not limited to:

(1) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;

(2) shortening any Offering Period so that Offering Period ends on a new Exercise Date, including an Offering Period underway at the time of the Board action; and

(3) allocating shares.

Such modifications or amendments shall not require stockholder

approval or the consent of any Plan participants.

21. NOTICES. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. CONDITIONS UPON ISSUANCE OF SHARES. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. TERM OF PLAN. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 20 hereof

24. AUTOMATIC TRANSFER TO LOW PRICE OFFERING PERIOD. To the extent permitted by any applicable laws, regulations, or stock exchange rules if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Enrollment Date of such Offering Period, then all participants in such Offering Period shall be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.

EXHIBIT A

PIXELWORKS, INC.

2000 EMPLOYEE STOCK PURCHASE PLAN

SUBSCRIPTION AGREEMENT

__________Original Application   Enrollment Date:______________
__________Change in Payroll Deduction Rate
__________Change of Beneficiary(ies)

1. __________________hereby elects to participate in the Pixelworks, Inc. 2000 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan") and subscribes to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Employee Stock Purchase Plan.

2. I hereby authorize payroll deductions from each paycheck in the amount of ______% of my Compensation on each payday (from 2% to 10%) during the Offering Period in accordance with the Employee Stock Purchase Plan. (Please note that no fractional percentages are permitted.)

3. I understand that said payroll deductions shall be accumulated for the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Employee Stock Purchase Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my option.

4. I have received a copy of the complete Employee Stock Purchase Plan. I

understand that my participation in the Employee Stock Purchase Plan is in all respects subject to the terms of the Plan. I understand that my ability to exercise the option under this Subscription Agreement is subject to shareholder approval of the Employee Stock Purchase Plan.

5. Shares purchased for me under the Employee Stock Purchase Plan should be issued in the name(s) of (Employee or Employee and Spouse only): ____.

6. I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Enrollment Date (the first day of the Offering Period during which I purchased such shares) or one year after the Exercise Date, I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were purchased by me over the price which I paid for the shares. I AGREE TO NOTIFY THE COMPANY IN WRITING WITHIN 30 DAYS AFTER THE DATE OF ANY DISPOSITION OF MY SHARES AND I WILL MAKE ADEQUATE PROVISION FOR FEDERAL, STATE OR OTHER TAX WITHHOLDING OBLIGATIONS, IF ANY, WHICH ARISE UPON THE DISPOSITION OF THE COMMON STOCK. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable

withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by me. If I dispose of such shares at any time after the expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares, or (2) 15% of the fair market value of the shares on the first day of the Offering Period. The remainder of the gain, if any, recognized on such disposition will be taxed as capital gain.

7. I hereby agree to be bound by the terms of the Employee Stock Purchase Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Employee Stock Purchase Plan.

8. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due me under the Employee Stock Purchase Plan:

NAME: (Please print) ____
(First) (Middle) (Last)

______________________ ____
Relationship

____
(Address)

Employee's Social Security Number:____

Employee's Address:____

____

____

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated:___________ ____
Signature of Employee

____
Spouse's Signature (If beneficiary other than spouse)

EXHIBIT A-2

EXHIBIT B

PIXELWORKS, INC.

2000 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

The undersigned participant in the Offering Period of the Pixelworks, Inc. 2000 Employee Stock Purchase Plan which began on ________________ _____, 20___ (the "Enrollment Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned shall be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

____

____

____

Signature:

____

Date: __________________________

EXHIBIT 10.11

Dear Jeff:

I'm delighted to present to you here the documentation to support our offer to you to become CFO of Pixelworks, Inc. (the Company.) The documentation consists of 1) This letter; 2) Our company-standard proprietary information agreement, and 3) the stock option grant form, on the terms we discussed. We will look forward to receiving your signatures on these documents on your first day at work.

This letter confirms that we will employ you, effective December 28, 1999. Your salary will initially be $140,000 per year, and will be reviewed from time to time by the compensation committee of the Board of Directors, as with other executive officers of the Company.

You are hired at will, but we do make these commitments concerning your termination.

Pixelworks may terminate your employment with or without cause. A termination is effective as of the date specified in the Notice of termination. But the consequences to you are different.

1) "Cause" will exist if you are convicted of a crime involving the company's business; or have misappropriated Company monies or assets; or have committed fraud; or have been grossly negligent in or willfully fail to accomplish the performance of your duties.

2) If you resign voluntarily or are terminated for cause, pay and benefits will cease as of the effective date of the resignation or termination. You will use good faith efforts to provide the Company as much notice as possible of any resignation.

3) If you are terminated without cause, however, we will give you severance benefits as follows.

- The Company will pay Executive's Base Salary, and any bonuses, all as earned through the termination date, in accord with Company policy as then in effect.

- The Company will in addition pay your Base Salary and benefits for a three month Severance Period, beginning on the date of termination. Payment of the Base Salary will be made on Company's standard payroll schedules from the date of termination, as if you had not been terminated.

If this all makes sense, we'll expect you on December 28, 1999 (the Start Date), and look forward to completing the paperwork and signatures then!

Very truly yours,

/s/ Allen Alley

Allen Alley, President

Accepted, as of the start date:

/s/ Jeff Bouchard

Jeffrey Bouchard

PIXELWORKS, INC.
STOCK OPTION GRANT AGREEMENT # I-92 AND N-2

Given to: JEFFREY BOUCHARD ("Optionee" or "You")   Date given: DECEMBER 8, 1999 ("Date of Grant")
Total Shares: 150,000 ("Shares")   Price Per Share: $3.64 ("Price per Share")
Exercise Rights Start: UPON HIRE   Options Expire: DECEMBER 7, 2009 ("Expiration Date")

Pixelworks, Inc. ("Company") grants you a option (the "Option") to purchase the Shares at the Exercise Price. The Option is exercisable under the Terms and Conditions of Option Grant attached as Exhibit A. The Option is subject to the terms of the Company's 1997 Stock Incentive Plan (the "Plan"), attached as Exhibit B. Of such options, those that first become exercisable for 10,302 shares in each year are INCENTIVE (qualified) stock options. The balance are NONQUALIFIED stock options.

Your option becomes exercisable on the following schedule:

Date Option Becomes Exercisable	Number of Shares
December 31, 1999, PROVIDED that if you leave the Company voluntarily before December 31, 2000, then 1) if you have not yet exercised these options, your right to do so lapses on the date of your departure, and 2) if you have exercised these options, the Company shall have the right to repurchase them from you at the exercise price, as if Unvested Shares under Section 4.1 of the attached Shareholder Agreement.	37,500
On the last day of every month thereafter, beginning January 31, 2001, for a total of 36 additional increments	3,125
If substantially all of the assets of the Company are sold, or the Company is merged with another company under circumstances in which effective control of plus the surviving company rests in different hands than prior to the merger, then measured from the effective date (the "Close") of that transaction:	The first (37,500) share increment above listed, without conditions, so many of the following 36 monthly increments as would otherwise become exercisable in the twelve months following the Close.
TOTAL SHARES:	150,000

You acknowledge reviewing this document and its exhibits before signing. You accept the grant, under the Terms and Conditions of Option Grant (Exhibit A); the terms of the Plan (Exhibit B), and the Shareholder Agreement (Exhibit C), each of which is attached. You also agree to accept as binding and final all decisions or interpretations of the Board of Directors of the Company upon any questions arising under the Plan or this Grant.

PIXELWORKS, INC.

By: /s/ Allen H. Alley
Print: Allen H. Alley
Title: President and CEO
Date: December 28, 1999

JEFFREY BOUCHARD

Sign: /s/ Jeff Bouchard
Home address: 15555 SW 76th Avenue
Tigard, OR 97224
Date: December 28, 1999

EXHIBITS:

A: Terms and Conditions of Option Grant
B: Pixelworks, Inc. 1997 Stock Incentive Plan
C: Shareholder Agreement
D: Stock Option Exercise Form

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Pixelworks, Inc.:

We consent to the use of our Independent Auditors' Report dated January 26, 2000 relating to the balance sheets of Pixelworks, Inc. as of December 31, 1998 and 1999, and the related statements of operations, redeemable convertible preferred stock and shareholders' equity (deficit) and cash flows for the period from January 16, 1997 (date of inception) through December 31, 1997 and for each of the years in the two-year period ended December 31, 1999 which report is included in the Registration Statement and Prospectus, dated April 11, 2000, of Pixelworks, Inc., and to the reference to our firm under the heading "Experts" in the Prospectus.

/s/ KPMG LLP

Portland, Oregon
April 11, 2000