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

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): September 5, 2006

PIXELWORKS, INC.

(Exact name of registrant as specified in its charter)

OREGON
(State or other jurisdiction of
incorporation)

000-30269
(Commission File Number)

91-1761992
(I.R.S. Employer
Identification No.)

8100 SW Nyberg Road
Tualatin, Oregon 97062
(503) 454-1750

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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PIXELWORKS, INC. AND SUBSIDIARIES

Item 1.01. ENTRY INTO MATERIAL DEFINITIVE AGREEMENT

On September 5, 2006, upon recommendation from the Compensation Committee, the Board of Directors of Pixelworks, Inc. (“the Company”) amended the Company’s 2006 Senior Management Bonus Plan (“the Bonus Plan”). The amendment applies to certain senior and middle management (the “Participants”), but expressly does not apply to the Company’s Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. Under the amended Bonus Plan, the Participants, other than the excluded officers, will have the opportunity to earn 16.7% of their target annual bonus based on the Company’s achievement of stated second half 2006 goals for Non-GAAP Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). The bonus will be earned if the Company reaches non-GAAP EBITDA of \$1,000,000 for the second half of 2006. The amendment offsets a reduction in the weighting of the pre-existing “Non-GAAP income (loss) before income taxes” goal in the Bonus Plan from 33.3% to 16.6%. No other provisions of the Bonus Plan were modified.

A copy of the Bonus Plan, as amended is filed as Exhibit 10.1 to this report and is incorporated herein by reference.

Item 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits.

10.1 Pixelworks, Inc. 2006 Senior Management Bonus Plan, as amended. +

+ Indicates a management contract or compensation arrangement.

SIGNATURE

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

PIXELWORKS, INC.
(Registrant)

By /s/ Michael D. Yonker

Michael D. Yonker
*Vice President, Chief Financial Officer, Treasurer
and Secretary*

Date: September 6, 2006

Pixelworks, Inc.
2006 Senior Management Bonus Plan, as amended

Bonuses for executive officers of the Company are calculated based on attainment of planned levels of revenue and non-GAAP income (loss) before income taxes, as well as the attainment of specified operational goals. Each of the goals is weighted as follows:

For Chief Executive Officer, Chief Operating Officer ("COO") and Chief Financial Officer ("CFO"):

Revenue	33.3%
Non-GAAP income (loss) before income taxes	33.3%
Operational goals	33.3%
	<u>100.0%</u>

For Vice Presidents (excluding COO and CFO) and middle management:

Revenue	33.3%
Q1/Q2 Non-GAAP income (loss) before income taxes	16.6%
Q3/Q4 Non-GAAP earnings before interest, taxes, depreciation and amortization (EBITDA)	16.7%
Operational goals	33.3%
	<u>100.0%</u>

Bonuses are calculated as a percentage of each executive officer's salary as follows: President and Chief Executive Officer and Executive Vice President and Chief Operating Officer, 100%; and Vice Presidents, 50%. Maximum bonuses for middle managers are 10%, 15% or 25% of annual salary, depending on the respective employees' level. The revenue and non-GAAP income (loss) before income taxes goals have escalating components whereby the executive officers have the opportunity to achieve up to 300% of each respective goal if levels higher than the base goals are achieved.

If goals are not achieved, bonuses are reduced proportionally. Additionally, the Company's Compensation Committee may increase or decrease individual bonuses based on qualitative factors.

Determination as to whether or not the performance targets have been met is made quarterly. The payout of bonuses will occur in the first quarter of 2007, upon approval of the Company's Compensation Committee.