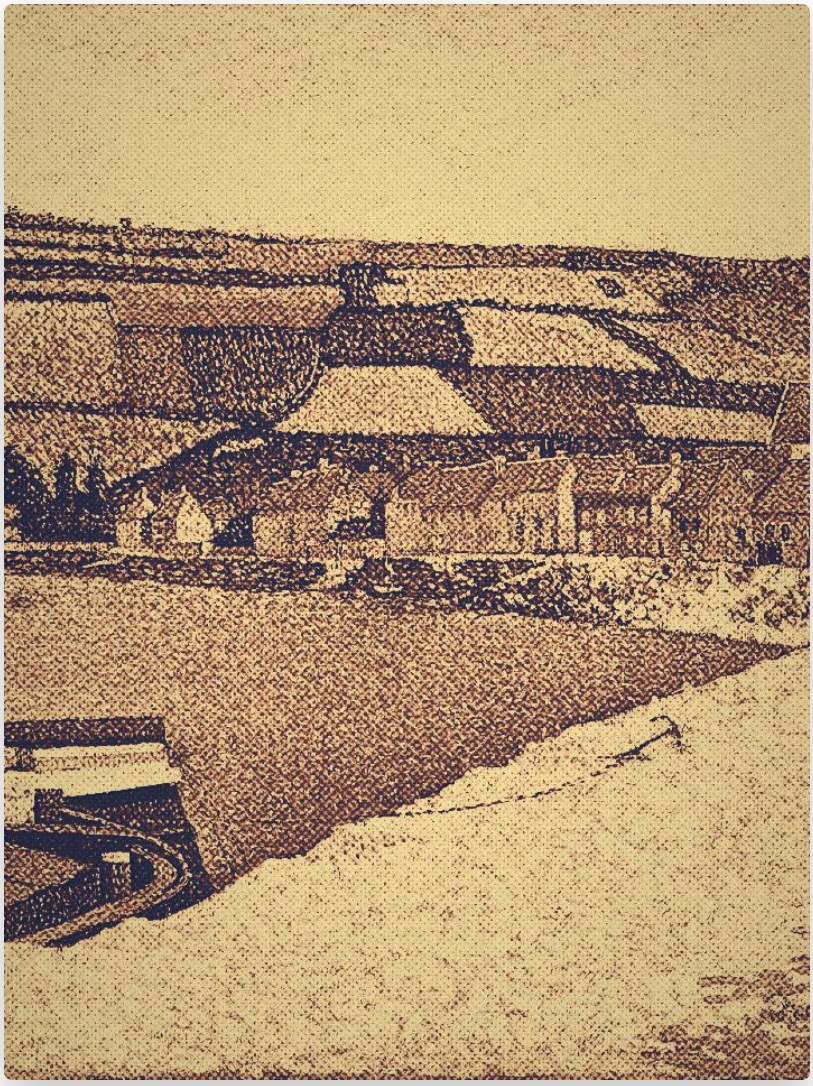
FORM S-1 · REGISTRATION STATEMENT

Pixelworks Inc

IPO priced 2000-05-19 · $10.00 a share · PXLW



From S1 Directory · www.s1directory.com/s1/pixelworks-inc/ · Source: https://www.sec.gov/Archives/edgar/data/1040161/000091205700008497/0000912057-00-008497.txt

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

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

PIXELWORKS, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

7700 SW MOHAWK TUALATIN, OREGON 97062 (503) 612-6700 (ADDRESS, INCLUDING ZIP CODE AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) ALLEN H. ALLEY PRESIDENT PIXELWORKS, INC. 7700 SW MOHAWK TUALATIN, OREGON 97062 (503) 612-6700 (NAME, ADDRESS, INCLUDING ZIP CODE AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

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

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

IF THE ONLY SECURITIES BEING REGISTERED ON THIS FORM ARE BEING OFFERED PURSUANT TO DIVIDEND OR INTEREST REINVESTMENT PLANS, CHECK THE FOLLOWING BOX: / / IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933 ("SECURITIES ACT"), OTHER THAN SECURITIES OFFERED ONLY IN CONNECTION WITH DIVIDEND OR INTEREST REINVESTMENT PLANS, CHECK THE FOLLOWING BOX: / / IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, PLEASE CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, PLEASE CHECK THE FOLLOWING BOX. / /

CALCULATION OF REGISTRATION FEE

PROPOSED MAXIMUM AGGREGATE TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED OFFERING PRICE(1) AMOUNT OF REGISTRATION FEE COMMON STOCK, $0.001 PAR VALUE..... $75,000,000 $19,800.00 (1) ESTIMATED SOLELY FOR THE PURPOSE OF COMPUTING THE AMOUNT OF THE REGISTRATION FEE PURSUANT TO RULE 457(O) UNDER THE SECURITIES ACT.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER

BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

SUBJECT TO COMPLETION, DATED FEBRUARY 25, 2000. THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

SHARES

[LOGO]

COMMON STOCK $ PER SHARE

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

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

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

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

THE UNDERWRITERS ARE OFFERING THE SHARES SUBJECT TO VARIOUS CONDITIONS. THE UNDERWRITERS EXPECT TO DELIVER THE SHARES TO PURCHASERS ON OR ABOUT , 2000.

SALOMON SMITH BARNEY DEUTSCHE BANC ALEX. BROWN SG COWEN

E*OFFERING

, 2000

[INSIDE FRONT COVER]

DESCRIPTION OF INSIDE COVER ART THE GRAPHIC IS ENTITLED "PIXELWORKS SYSTEM-ON-A-CHIP SOLUTIONS ENABLE THE DISPLAY OF BROADBAND CONTENT." A PARAGRAPH OF TEXT READS: "PIXELWORKS OPENS UP THE "LAST METER" BY INTERPRETING AND OPTIMIZING VIDEO, COMPUTER GRAPHICS AND WEB INFORMATION FOR DISPLAY ON A WIDE VARIETY OF DEVICES USED IN BUSINESS AND CONSUMER MARKETS. WE SPECIALIZE IN COST EFFECTIVE SYSTEM-ON-A-CHIP AND EMBEDDED SOFTWARE SOLUTIONS FOR HIGH-SPEED DIGITAL, ANALOG AND VIDEO SIGNAL PROCESSING."

THE PAGE USES A STYLIZED ILLUSTRATION OF A REPRESENTATION OF A PIPELINE WITH A REPRESENTATION OF AN IMAGEPROCESSOR INTEGRATED CIRCUIT LINKED TO VARIOUS DISPLAY DEVICES. AT THE TOP IS A HUMAN EYE WITH A REPRESENTATION OF A GLOBE POSITIONED IN PLACE OF THE IRIS. AT THE BOTTOM OF THE ILLUSTRATION ARE REPRESENTATIONS OF VARIOUS FORMS OF VISUAL BROADBAND CONTENT, INCLUDING FIVE BOXES CONTAINING ILLUSTRATIONS OF THE FOLLOWING FROM LEFT TO RIGHT: A PERSON SPEAKING AS IF INVOLVED IN AN ONLINE CONFERENCE; A SCREEN FROM AN E-COMMERCE SHOPPING SITE FOR CLOTHING; A DRAWING OF FOOTBALL PLAYERS; A SCREEN OF FINANCIAL DATA SHOWING A GROWTH CHART; AND A DRAWING OF TWO CHARACTERS IN A FUTURISTIC SWORD FIGHT TO REPRESENT MOVIE CONTENT. THE FOLLOWING WORDS ARE POSITIONED ADJACENT TO THE FIVE BOXES: "PC GRAPHICS," "WEB CONTENT," AND "VIDEO." THE PIPE IS

DRAWN USING PERSPECTIVE WITH THE END AT THE BOTTOM OF THE PAGE APPEARING TO BE DISTANT WITH THE PIPE LABELED "THE BROADBAND PIPE." AT THE OPENING AT THE TOP IS AN ILLUSTRATION OF AN IMAGEPROCESSOR IC WITH A PIXELWORKS LOGO ON THE TOP OF THE CHIP. FIVE ILLUSTRATIONS OF DISPLAY DEVICES SURROUND THE INTEGRATED CIRCUIT FROM LEFT TO RIGHT AS FOLLOWS: SMALL LCD MONITOR, REAR PROJECTION, WIDE-SCREEN TELEVISION, A WEB TABLET, A PLASMA DISPLAY AND MULTIMEDIA PROJECTOR.

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

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

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

Prospectus Summary

THIS SUMMARY HIGHLIGHTS INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS. SINCE THIS IS ONLY A SUMMARY, IT DOES NOT CONTAIN ALL OF THE INFORMATION THAT MAY BE IMPORTANT TO YOU. YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY AND CONSIDER THE INFORMATION UNDER "RISK FACTORS"

AND IN OUR FINANCIAL STATEMENTS AND THE NOTES RELATING TO THESE FINANCIAL STATEMENTS, TOGETHER WITH THE INFORMATION INCLUDED ELSEWHERE IN THIS PROSPECTUS, BEFORE DECIDING WHETHER TO INVEST IN OUR SHARES OF COMMON STOCK. OUR FISCAL YEAR ENDS ON DECEMBER 31. EXCEPT WHERE OTHERWISE NOTED, THE INFORMATION IN THIS PROSPECTUS IS BASED UPON INFORMATION AS OF DECEMBER 31, 1999.

Our Company

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

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

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

Today, the convergence of television and computer applications is creating new development opportunities for display devices that integrate the ability to process full motion video and support interactive capabilities. This convergence results in increased requirements for throughput and a corresponding higher level of complexity in processing, interpreting and displaying information. While

significant growth is forecasted for display devices, the increasing need to rapidly process large amounts of data delivered using a multitude of broadcast and Web protocols could constrain this growth. This bottleneck limits end users' ability to access the full visual potential of broadband content.

Our highly integrated solution, the ImageProcessor system-on-a-chip, breaks through this bottleneck. Our system-on-a-chip solutions are capable of interpreting and optimizing high-speed video, computer graphics and Web information in real time. Our products can also process analog and digital input sources ranging from VGA to QXGA computer resolutions and the latest high definition television standards. We enable our customers to quickly integrate our products into their own advanced display development programs with our hardware and software solutions. We provide our customers with a new design approach that lets them address all of their display solutions within a single architectural platform that is software compatible across product lines.

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

Key benefits of our solution include:

- consistent, scalable architecture across multiple products;

- broad compatibility with a range of input sources and interface standards;

- a large suite of features required for the most demanding applications; and - rapid time to market with lower development costs.

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

The key elements of this strategy are:

- design and sell increasingly integrated systems-level solutions on single chips;

- deliver highly flexible, scalable and programmable solutions;

- expand from high-end markets into mass markets;

- support and define industry standards; and - build strategic relationships.

Corporate Information

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

prospectus.

The Offering

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

Proposed Nasdaq National Market symbol..... PXLW Unless otherwise indicated, all information in this prospectus, including the outstanding share information above is based on the number of shares outstanding as of December 31, 1999 and:

- gives effect to the issuance of 2,239,212 shares of Series D preferred stock issued on February 22, 2000;

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

- reflects a -for- stock split which will be effected prior to the offering;

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

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

- excludes 1,000,000 shares of common stock available for issuance under our 2000 employee stock purchase plan; and - assumes no exercise of the underwriters' over-allotment option.

Summary Financial Information

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

The pro forma numbers in the table give effect to:

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

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

	PERIOD FROM JANUARY 16, 1997	YEARS ENDED

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

AS OF DECEMBER 31, 1999 PRO FORMA ACTUAL PRO FORMA AS ADJUSTED (IN THOUSANDS)

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

Risk Factors

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

Risks Related to Our Operations

Our Limited Operating History Makes It Difficult to Evaluate Our Future Prospects.

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

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

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

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

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

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

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

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

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

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

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

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

- changes in product mix, product costs or pricing, or distribution channels; and - general economic conditions and economic conditions specific to the personal computer, display and semiconductor markets.

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

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

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

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

We May Not Be Able to Develop New Products or Product Enhancements in a Timely Manner.

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

- accurate prediction of market requirements and evolving customer and industry standards;

- development of advanced technologies and capabilities;

- definition of new products which satisfy customer requirements;

- timely completion and introduction of new product designs;

- use of advanced foundry processes and achievement of high manufacturing yields; and - market acceptance of the new products.

As a result of the increased challenges associated with more complex mixed-signal designs, we have experienced increased development time and delays in introducing new products. We will not always succeed in developing new products or product enhancements or do so in a timely manner. If we are not able to successfully develop and introduce our products in a timely manner, our business and results of operations will be adversely affected.

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

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

Our Highly Integrated Products Are Difficult and Costly to Manufacture.

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

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

We are and will continue for the foreseeable future to be dependent on a limited number of large customers for a substantial portion of our revenues. In 1999, sales to Tokyo Electron Device Limited, our Japanese distributor, represented 54.8% of our total revenue and sales to MicroMax International Corporation, our Taiwanese distributor, represented 23.6% of our total revenue. In 1999, sales through

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

- a significant reduction, delay or cancellation of orders from one or more of our key distributors, branded manufacturers or integrators; or - a decision by one or more significant customers to select products manufactured by a competitor, or its own internally developed solution, for inclusion in future product generations.

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

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

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

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

- foreign currency exchange fluctuations;

- potentially adverse tax consequences;

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

- political and economic instability;

- tariffs and other barriers;

- reduced or limited protection of our intellectual property;

- burden of complying with complex foreign laws and treaties;

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

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

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

- difficulties in collecting accounts receivable; and - difficulties related to design piracy of display processing technology that may exist outside the U.S.

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

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

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

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

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

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

- reduced control over quality assurance and manufacturing yields;

- lack of guaranteed production capacity or product supply;

- unavailability or interruption of access to next-generation or key process technologies necessary to manufacture our products; and - potential misappropriation of our intellectual property.

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

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

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

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

We are continuously developing new products on smaller geometry process technologies in order to increase performance and functionality and reduce the size of our products. We are dependent on our foundries to develop and provide access to deep-submicron processes. We cannot be certain that future deep-submicron processes will be achieved without difficulties, delays or increased expenses. Our business, financial condition and results of operations could be materially and adversely affected if such processes are unavailable, substantially delayed or inefficiently implemented.

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

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

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

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

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

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

Development Arrangements May Consume Our Resources Far in Advance of Revenue.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- attempt to obtain a license to the relevant intellectual property, which license may not be available on reasonable terms or at all; and - attempt to redesign those products that contain the allegedly infringing intellectual property.

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

We were recently notified by InFocus Systems, Inc. that InFocus believed we were infringing patents held by InFocus that relate to methods and apparatus for automatic pixel clock phase and frequency correction. While we do not believe we are infringing these patents, in order to avoid the business uncertainty and diversion of management attention associated with contesting this assertion, we have

entered into a license agreement with InFocus granting us the right to use the technology covered by the InFocus patents in exchange for 156,863 shares of our Series D preferred stock and $2.4 million in cash payable in four quarterly installments commencing in March 2000. Under this license agreement, we also received a release of any claims that InFocus may have against us relating to these patents. In addition, we have recently been subpoenaed by the plaintiff in a patent infringement suit against one of our customers to provide information about our design and development efforts for that customer and other information.

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

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

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

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

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

- incur debt;

- assume liabilities;

- incur amortization expenses related to goodwill and other intangible assets; or - incur large and immediate write-offs.

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

- problems combining the purchased operations, technologies or products;

- unanticipated costs;

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

- adverse effects on existing business relationships with customers;

- risks associated with entering markets in which we have no or limited prior experience; and - potential loss of key employees, particularly those of the acquired organizations.

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

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

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

Risks Related to Our Industry

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

Our product development strategies anticipate that consumer demand for flat panel displays and other emerging display products will increase in the future. The success of our products is dependent on increased demand for these products, which are at early stages of development. The potential size of the flat panel display market and the timing of its development are uncertain and will depend upon a number of factors, all of which are beyond our control. In order for the market for many of our

products to grow, advanced flat panel displays must be widely available and affordable to consumers. Currently there is a limited supply of advanced flat panel displays, and increasing the supply of advanced displays is a costly and lengthy process requiring significant capital investment. Accordingly, we do not expect the current shortage of advanced flat panel displays or their high prices to change in the near term. In the past, the supply of advanced flat panel displays has been cyclical. We expect this pattern to continue. Undercapacity in the advanced flat panel display market may limit our ability to increase our revenues because our customers may limit their purchases of our products if they cannot obtain sufficient supplies of advanced flat panel displays. In addition, advance flat panel display prices may remain high because of limited supply, and consumer demand may not grow if the supply of advanced flat panel displays does not increase.

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

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

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

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

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

Rapid technological change, evolving industry standards, compressed product life cycles and declining average selling prices are characteristics of our market and could have a material adverse effect on our business, financial condition and results of operations. As the overall price of advanced flat panel display screens continues to fall, we may be required to offer our products to manufacturers at discounted prices due to increased price competition. At the same time, new, alternative display processing technologies and industry standards may emerge that directly compete with technologies

that we offer. We may be required to increase our investment in research and development at the same time that product prices are falling. In addition, even after making this investment, we cannot assure you that our technologies will be superior to those of our competitors or that our products will achieve market acceptance, whether for performance or price reasons. Failure to effectively respond to these trends could reduce the demand for our products.

We compete with a range of specialized and diversified electronic and semiconductor companies that offer display processors. In particular, we compete against Genesis Microchip, Inc., Macronix International Co., Ltd., Sage, Inc., Silicon Image, Inc., SmartASIC, Inc., STMicroelectronics NV, Trident Microsystems, Inc. and other companies. Potential competitors may include diversified semiconductor manufacturers including Broadcom Corporation, National Semiconductor Corp., Texas Instruments, Inc. and other diversified semiconductor companies. We also compete in some instances against in-house processing solutions designed by our customers. Many of our competitors have longer operating histories and greater resources to support development and marketing efforts. Some of our competitors may operate their own fabrication facilities. These competitors may be able to react faster and devote more resources to efforts that compete directly with our own. In the future, our current or potential customers may also develop their own proprietary display processors and become our competitors. In addition, start-up companies may seek to compete in our markets. Our competitors may develop advanced technologies enabling them to offer more cost-effective and higher quality solutions to our customers than those offered by us. Increased competition could harm our business, financial condition and results of operations by, for example, increasing pressure on our profit margin or causing us to lose sales opportunities. We cannot assure you that we can compete successfully against current or potential competitors.

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

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

competitive position and our prospects for growth. There can be no assurance that we will be able to anticipate the evolving standards in the semiconductor industry and, in particular, the applications in the Internet appliance market, or that we will be able to successfully develop and introduce new products into this market.

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

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

Risks Relating to the Offering

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

We will have shares of common stock outstanding immediately after the offering. The shares of our common stock sold in the offering will be freely transferable. Additional shares may be sold in the public market to the extent permitted by Rule 144 or exemptions under the Securities Act of 1933. Lock-up agreements executed by our officers, directors and existing shareholders limit the number of shares of our common stock that may be sold in the public market for periods of up to days. However, Salomon Smith Barney may, in its sole discretion and at any time, release all or some portion of the securities subject to the lock-up agreements. The market price of shares of our common stock could decline as a result of sales of a large number of shares of our common stock in the market after the offering, or the perception that such sales could occur. These factors also could make it more difficult for us to raise funds through future offerings of our common stock.

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

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

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

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

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

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

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

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

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

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

- actual or anticipated fluctuations in our operating results;

- changes in expectations as to our future financial performance;

- changes in financial estimates of securities analysts;

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

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

- changes in market valuations of other technology companies; and - inconsistent trading volume levels of our common stock.

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

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

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

Special Note Regarding Forward-looking Statements

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

Use of Proceeds

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    Based on an assumed initial public offering price of $         per share,
our net proceeds from the sale of          shares of common stock that we are
offering will be approximately $         million after deducting the
underwriting discount and estimated expenses payable by us in connection with
this offering. If the underwriters exercise their over-allotment option in full,
our net proceeds will be approximately $         million.
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The principal purposes of this offering are to increase our working capital and other general corporate purposes. See "Management Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." Although we may use a portion of the net proceeds to acquire complementary technologies or businesses, we have no current plans in this regard. Pending such uses, we plan to invest the net proceeds in short-term, interest-bearing, investment grade securities. Management will retain broad discretion in the allocation of the net proceeds of this offering. You will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use the proceeds.

Dividend Policy

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

Capitalization

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

- on an actual basis;

- on a pro forma basis after giving effect to:

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

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

DECEMBER 31, 1999 PRO FORMA ACTUAL PRO FORMA AS ADJUSTED (IN THOUSANDS, EXCEPT SHARE DATA)

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

Common shares exclude:

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

- 1,936,494 shares of common stock available for issuance under our 1997 stock incentive plan; and - 1,000,000 shares of common stock available for issuance under our 2000 employee stock purchase plan.

Dilution

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

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

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

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

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

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

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

- 1,936,494 shares of common stock available for issuance under our 1997 stock incentive plan; and - 1,000,000 shares of common stock available for issuance under our 2000 employee share purchase plan.

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

Selected Financial Data

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

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

AS OF DECEMBER 31, 1997 1998 1999 (IN THOUSANDS)

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

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

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

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

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

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

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

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

Product gross profit fluctuated over the past several quarters due to a change in mix from low volume chip and evaluation board samples to high volume integrated circuit production. We expect average selling prices to decrease as we move to higher volume, lower cost solutions. Additionally there will be some average selling price reductions for our existing products due to the highly competitive nature of the semiconductor industry. We anticipate that our product gross profit may fluctuate quarter to quarter due to product mix, competitive factors and our move from a turnkey Application Specific integrated circuit, or ASIC, business model to a customer owned tooling, or COT, business model. See "Risk Factors--Intense competition in our markets may reduce sales of our products, reduce our market share, decrease our gross profit and increase losses."

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

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

Results of Operations

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

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

Year Ended December 31, 1997, 1998 and 1999

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

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

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

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

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

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

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

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

PROVISION FOR INCOME TAXES. We recorded no provision for income tax in 1997. We recorded income tax expense of $14,000 and $3,000 for 1998 and 1999, respectively, related to foreign taxes on license fee revenue. As of December 31, 1999 we had approximately $5 million of net operating loss carryforwards to offset against future taxable income. The carryforwards expire on various dates through 2018, if not used. Utilization of net operating losses is subject to an annual limitation due to the changes in ownership provisions of the Internal Revenue Code of 1986 and similar state provisions. We are in a deferred tax asset position, which has been fully reserved. We will continue to provide a valuation allowance for our deferred tax assets until it becomes more likely than not, in our assessment, that our deferred tax assets will be realized.

Quarterly Results of Operations

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

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

	THREE MONTHS ENDED			
	MAR. 31, 1999	JUNE 30, 1999	SEPT. 30, 1999	DEC. 31, 1999
Revenue:				
Product revenue, net	73.2 %	100.0 %	100.0 %	100.0 %
Commissions	10.6	0.0	0.0	0.0
Licensing and development fees	16.2	0.0	0.0	0.0
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue	26.5	71.3	66.4	66.7
Gross profit	73.5	28.7	33.6	33.3
Operating expenses:				
Research and development	133.6	56.9	31.3	26.2
Selling, general and administrative	98.0	49.5	29.6	26.0
Amortization of deferred stock compensation	0.7	1.6	3.3	6.5
Total operating expenses	232.3	108.0	64.2	58.7

Loss from operations	(158.8)	(79.2)	(30.6)	(25.4)
Interest and other income, net	5.9	4.0	3.6	2.4
Loss before income taxes	(152.9)	(75.2)	(27.0)	(23.0)
Income taxes	0.5	0.0	0.0	0.0
Net loss	(153.4)%	(75.2)%	(27.0)%	(23.0)%

1999 Quarterly Results of Operations

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

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

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

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

Our quarterly and annual operating results have fluctuated in the past and are likely to fluctuate significantly in the future. It is likely that in some future quarter our operating results will fall below the expectations of securities analysts and investors. In this event, the market price of our common share

could significantly decline. See "Risk Factors--Fluctuations in our quarterly operating results make it difficult to predict our future performance and may result in volatility in the market price of our common stock" for more information on the factors affecting our quarterly results.

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

Liquidity and Capital Resources

Since our inception, we have primarily financed operations through private placements of our preferred convertible stock. Through December 31, 1999, gross proceeds from private placements of preferred stock and the exercise common stock purchase warrants issued to investors totaled approximately $20.8 million. To a lesser extent, we have financed operations through accounts receivable and equipment lines of credit, and the exercise of options and warrants to purchase common stock.

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

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

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

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

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

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

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

In February of 2000, we licensed rights to two patents from InFocus Systems, Inc. The terms of the license call for four quarterly payments of $600,000 beginning on March 31, 2000.

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

We intend to substantially increase our operating expenses. These operating expenses will consume a material amount of our cash resources, including a portion of the net proceeds of this offering. We believe that the net proceeds from this offering, together with existing cash balances and funds available under our existing credit facilities, will be sufficient to meet our capital requirements for at least the next 12 months. After this period, capital requirements will depend on many factors, including the levels at which we maintain accounts receivable and inventory. We may need to raise

additional funds, and additional financing may not be available on favorable terms, if at all. Further, if we issue additional equity securities, shareholders may experience dilution, and the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If we cannot raise funds, if needed, on acceptable terms, we may not be able to develop new products or enhance our existing products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. This may seriously harm our business and results of operations.

Quantitative and Qualitative Disclosure About Market Risk

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

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

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

Foreign Currency Exchange Risk

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

Inflation

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

Recently Issue Accounting Pronouncements

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

Year 2000

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

Business

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

Overview

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

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

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

Industry Background

The increasing availability of high-speed access to broadband content is transforming the way we see and use information. The amount of information that can be transmitted at high speeds over long distances is increasing dramatically. At the same time, technologies such as digital subscriber lines, or DSL, cable modems, and fast ethernet are allowing end users to receive data through significantly increasing bandwidth in the "last mile." According to IDC, broadband access is expected to grow at a compounded annual growth rate of 185% from 1999 to 2003. In order to take full advantage of the large amounts of visual information arriving at the last meter, users are demanding more sophisticated display devices capable of showing text, graphics and full motion video simultaneously. These devices include flat panel monitors, high definition televisions, or HDTVs, multimedia projectors, and Internet appliances. Independent research firms are projecting significant growth for these devices over the next several years:

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

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

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

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

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

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

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

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

Pixelworks Solution

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

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

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

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

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

Key benefits of our solution include:

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

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

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

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

Pixelworks Strategy

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

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

DELIVER HIGHLY FLEXIBLE, SCALABLE AND PROGRAMMABLE SOLUTIONS. Unlike component IC suppliers, our system-on-a-chip solution includes both silicon circuitry and software. Our ready-to-implement software modules shorten our customers' development time by giving them

the option to reduce or eliminate their own custom development. Systems using our design architecture can handle resolutions as high as QXGA, which requires more than 5 gigabits of bandwidth per second. Our strategy is to continuously provide our customers with new software, driving higher levels of performance and functionality.

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

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

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

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

Products

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

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

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

All of our ImageProcessor IC solutions include the following features:

- INTELLIGENT IMAGE PROCESSING--interprets and resizes incoming image signals to match the aspect ratio and fixed resolution of the target display device - ADAPTIVE IMAGE OPTIMIZATION--identifies and configures the incoming signal to produce the best possible image - ADVANCED VIDEO SUPPORT--recognizes and optimizes incoming video signals, including HDTV, for a wide variety of display resolutions - SOFTWARE COMPATIBILITY--allows customers to rapidly create products across product lines and categories Modular features of our ImageProcessor IC solutions include:

- MAXIMUM INPUT RESOLUTION--the highest level of incoming signal resolution supported by a specific ImageProcessor IC - MAXIMUM OUTPUT RESOLUTION--the highest level of resolution a specific ImageProcessor IC can provide to the actual display - PICTURE-IN-PICTURE--the ability to overlay and view one image source simultaneously with another image source in a resizable and movable window - KEYSTONE CORRECTION--allows users to adjust the image electronically in order to project a "squared-up" image from a range of projection angles Our current ImageProcessor ICs are:

Market Modular Features

	ADVANCED TELEVISION APPLICATIONS	COMPUTING	BUSINESS PRESENTATION	MAX. IMINPUTOCESSOR RESOLUTION	MAX. OUTPUT RESOLUTION	PICTURE-IN-PICTURE	KEYSTONE CORRECTION
PW364	X	X	UXGA	UXGA	X	Full-featured	SXGA, UXGA
Multimedia Monitors and TVs PW364D	X		UXGA	UXGA	X	X	Full-featured
SXGA, UXGA Multimedia Projection PW264	X	X	SXGA	XGA	X	Full-featured	XGA
Monitors PW264-K	X	X	SXGA	XGA	X	X	Mainstream
XGA Projection PW164W-20	X	X					

UXGA SXGA X Low Cost XGA Projection Pin Compatible with PW364/PW264 PW164-10R X SXGA XGA 15 in. XGA Multimedia Monitors PW164-20R X UXGA SXGA 17-18 in. SXGA Multimedia Monitors PW164-10RK X X SXGA XGA X Cost-sensitive XGA/SVGA Projection PW164-20RK X X UXGA SXGA X Cost-sensitive SXGA Projection PWSR-01 X QXGA QXGA X Super Resolution Chip Set Monitors Notes:

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

Our Software

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

The Software Development Kit includes:

- Embedded "C" language, object-oriented source code and libraries;

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

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

- Support for a wide range of hardware devices; and - Windows-based utilities:

- GUIBuilder--allows the customer to build graphical on-screen user interfaces - Display Configurator--allows the customer to configure timing for particular display panels - FlashUpgrader--allows the customer to download firmware - PW Debug--gives the customer the capability for interactive debugging of the system over a serial interface

Future Product Development

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

Technology

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

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

Imageprocessor Ic Technology

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

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

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

Intelligent Image Processing Technology

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

include the following:

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

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

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

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

COLOR COMPENSATION TECHNOLOGY. Our sophisticated custom color compensation technology makes it possible to display consistent color images from video and computer graphics, which use very different color palettes, on different display devices. Our color processing technology compensates for variations in the color performance of a display. Using our unique approach any color can be addressed

independently and adjusted without impacting other colors. Our customers can use our color compensation technology to compensate for non-uniform color in a specific display and to provide consistent color performance across multiple products using different display technologies. It can also be used to compensate for color variations in display components provided by different vendors.

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

Fully Customizable On-screen Display

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

Customizable Feature Support for Specific Device Functionality

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

- Picture-in-picture for products in the consumer multimedia, high-end desktop monitors and business presentation markets - Image shaping for keystone correction in business presentation products - Digital zoom to enlarge images electronically

Mixed Signal Support

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

Customers, Sales and Marketing

We have achieved design wins with global leaders in the business computing and consumer electronics markets. We have announced products in production with Compaq, Sony and ViewSonic and have more than 45 customers who are using our system-on-a-chip solutions in over 75 products. Our

customer list includes seven out of the top 10 monitor brands and 10 out of the top 15 television brands.

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

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

- Manufacturers Representatives--Independent sales agents who represent us in local markets and provide pre- and post-sales support and do not carry inventory - Distributors--Resellers in local markets who provide pre- and post-sales support and stock our ImageProcessor ICs in direct relation to specific manufacturing customer orders - Integrators--OEM customers who build display devices based on specifications provided by branded manufacturers - Branded Manufacturers--Globally recognized manufacturers who develop display device specifications, manufacture, market and distribute display devices either directly or through resellers to end-users In Japan, our products are primarily sold through our distributor, Tokyo Electron Device who represented 54.8% of our 1999 total revenue. Sales through Tokyo Electron Device to Seiko Epson and Hitachi represented 23.3% and 11.2% of our 1999 total revenue, respectively. In Taiwan, we primarily sell through our distributor MicroMax International who represented 23.6% of our 1999 total revenue. Sales through MicroMax to Optoma Corp., formerly known as CTX Opto-Electronics, an integrator for Compaq, represented 13.4% of our 1999 total revenue. We support our European and Korean customers through direct sales supported by manufacturer representatives. We sell our products to and support our U.S. customers directly.

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

Research and Development

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

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

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

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

Manufacturing

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

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

Intellectual Property

We rely on a combination of nondisclosure agreements and copyright, trademark and trade secret laws to protect the algorithms, design and architecture of our system-on-a-chip technology. We currently have three patent applications pending with the U.S. Patent and Trademark Office for protection of

certain of our significant technologies, which are image scaling with keystone correction, and our DRAM based scaling engine. We intend to seek patent protection for other significant technologies that we have already developed and expect to seek patent protection for future products as necessary. Any future patents may not be granted and if granted may be invalidated, circumvented, challenged or licensed to others.

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

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

Competition

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

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

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

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

Employees

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

Facilities

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

Management

Directors and Executive Officers

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

Name Age Position

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

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

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

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

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

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

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

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

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

MARK A. STEVENS has served as a director of our Company since April 1998. Since 1993, Mr. Stevens has been a General Partner of Sequoia Capital, a venture capital investment firm. From 1989 to 1993, Mr. Stevens was an Associate with Sequoia Capital. From 1982 to 1987, Mr. Stevens held technical sales and marketing positions at Intel Corporation. Mr. Stevens currently serves on the Board of Directors of NVIDIA, Corp., a 3D graphics processor semiconductor company, Terayon Communications Systems, Inc., MedicaLogic, Inc., an Internet healthcare information company, MP3.com, Inc., an online music service provider, Medibuy.com, a business-to-business exchange for

healthcare supplies procurment, and several privately held companies. Mr. Stevens holds a B.S.E.E. degree, a B.A. degree in Economics, an M.S. degree in Computer Engineering from the University of Southern California and an M.B.A. degree from Harvard Business School.

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

Board of Directors

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

Board Committees

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

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

Director Compensation

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

Compensation Committee Interlocks and Insider Participation

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

Executive Officers

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

Compensation of Executive Officers

Summary Compensation Table

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

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

Allen H. Alley President and Chief Executive Officer..... 1999 $160,714 $40,000 22,500 -- Hans H. Olsen Vice President, Operations..... 1999 133,429 45,000 -- $134,441(1) Robert Y. Greenberg Vice President, Product Development..... 1999 118,899 30,000 10,000 -- Michael G. West Vice President, Technology..... 1999 118,899 30,000 10,000 -- Bradley A. Zenger Vice President, Marketing..... 1999 118,928 30,000 10,000 -- Michael E. Barton Vice President, Sales..... 1999 120,248 40,000 -- -- (1) Represents the difference between the fair market value and the purchase price of 203,958 shares of common stock purchased pursuant to a restricted stock purchase award under our 1997 stock incentive plan.

Option Grants in Last Fiscal Year

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

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

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

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

Options Exercised in Last Fiscal Year and Fiscal Year End Option Values

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

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1999		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1999(2)	
	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED(1)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE

Allen H. Alley.....	--	--	0	22,500	--
Hans H. Olsen.....	46,042	$42,359	--	--	--
--					
Robert Y. Greenberg....	--	--	0	10,000	
Michael G. West.....	--	--	0	10,000	
Bradley A. Zenger.....	--	--	0	10,000	
Michael E. Barton.....	--	--	42,500	127,500	

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

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

Employment Agreements

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

Employee Benefit Plans

1997 Stock Incentive Plan

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

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

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

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

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

2000 Employee Stock Purchase Plan

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

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

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

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

Amounts deducted and accumulated under the 2000 Plan are used to purchase shares of common stock at the end of each six-month purchase period. The price of shares purchased under the plan is 85% of the lower of the fair market value of the shares of common stock at the beginning of the offering period or after a purchase period ends. If the offering period commences on the date of this offering, the price of the shares purchased shall be the lower of 85% the price to the public of the shares offered in this offering or 85% of the fair market value of the shares of common stock after the purchase period ends. In the event the fair market value at the end of a purchase period is less than the fair market value at the beginning of the offering period, participants will be withdrawn from the current offering period following their purchase of shares on the purchase date and will be automatically re-enrolled in a new offering period. In addition, in the event the fair market value at the end of a purchase period is less than the fair market value at the beginning of the offering period, a

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

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

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

Indemnification of Directors and Executive Officers and Limitation of Liability

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

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

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

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

Certain Transactions

Company Formation

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

Series a Preferred Financing

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

Series B Preferred Financing

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

Gill Option

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

Exercise of Common Stock Purchase Warrants

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

Series C Preferred Financing

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

Transactions with Hans H. Olsen

On August 31, 1999, Hans H. Olsen, our Vice President of Operations exercised stock options to acquire 46,042 shares of our common stock at an aggregate exercise price of $11,511 and agreed to cancel options to acquire 123,958 shares of common stock at $.25 per share, options to acquire 30,000 shares of common stock at $.49 per share and options to acquire 50,000 shares of common stock at $1.17 per share. On the same date, pursuant to restricted stock awards, Mr. Olsen purchased 123,958 shares of common stock at $.25 per share, 30,000 shares of common stock at $.49 per share and 50,000 shares of common stock at $1.17 per share. Mr. Olsen paid the aggregate exercise price for the options exercised and the aggregate purchase price for the additional shares purchased, $115,700, by delivering to us a promissory note. In addition, we advanced Mr. Olsen an additional $82,826 under the note to cover any tax liability arising from his purchase of shares pursuant to his restricted stock award. The note bears interest at an annual rate of 6.02% payable annually. The principal amount of the note must be repaid on the earlier of August 31, 2008 or termination of Mr. Olsen's employment voluntary or for cause. Upon termination of Mr. Olsen's employment we have the right to re-purchase any of these shares which are unvested for an amount equal to the price paid. Of the 203,958 restricted shares purchased by Mr. Olsen, 183,748 remain unvested as of January 31, 2000.

Principal Shareholders

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

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

- each of named executives;

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

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

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

The percentage of shares beneficially owned are based on:

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

BENEFICIAL OWNERS	SHARES BENEFICIALLY OWNED	PERCENT BEFORE OFFERING	PERCENT AFTER OFFERING
Battery Ventures IV, L.P.(1)	5,897,298	29.9%	20 Williams Street Wellesley, MA 02181 Sequoia Capital VII(2)
4,165,825	21.1	3000 Sand Hill Road Building 4, Suite 280 Menlo Park, CA 94025 Enterprise Development Fund II, Limited	1,318,823
6.7	Partnership . 425 N. Main Street Ann Arbor, MI 48104 Oliver D. Curme(3)	5,897,298	29.9 Mark A. Stevens(4)
4,165,825	21.1 Frank Gill(5)	15,625	* Allen H. Alley(6)
1,706,483	8.6 Hans H. Olsen	250,000	1.3

BENEFICIAL OWNERS	SHARES BENEFICIALLY OWNED	PERCENT BEFORE OFFERING	PERCENT AFTER OFFERING
Robert Y. Greenberg(7)	952,957	4.8 Michael G. West(8)	952,957
4.8 Bradley A. Zenger(9)	752,917	3.8 Michael E. Barton(10)	53,125
* Directors and Executive Officers as a group (10 persons)	14,791,303	74.5 * Less than one percent (1%).	

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

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

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

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

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

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

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

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

(9) Includes (a) 750,000 outstanding shares and (b) 2,917 shares issuable upon exercise of stock options held by Mr. Zenger.

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

Description of Capital Stock

General

After this offering, we will be authorized to issue up to 250,000,000 of Common stock, par value $0.001 per share, and 50,000,000 shares of Preferred stock, par value, $0.001 per share. Immediately after this offering, we estimate there will be approximately shares of common stock outstanding, shares of common stock issuable on exercise of outstanding options and no preferred shares. The weighted average exercise price of the outstanding options is $. The following description of our capital stock is

not complete. You should carefully read our Fifth Amended and Restated Articles of Incorporation and First Restated Bylaws, which have been filed as exhibits to the Registration Statement, of which this Prospectus is a part. Additionally, certain provisions of Oregon law may impact our capital stock.

Common Stock

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

Preferred Stock

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

Registration Rights

Certain shareholders holding an aggregate of 18,139,219 shares are entitled to rights with respect to registration of these shares under the securities act. The rights are provided under the terms of an agreement between us and the holders of registrable securities. Beginning six months following the completion of this offering, certain holders of then outstanding registrable securities may require on up to two occasions that we register their shares for public resale. We are obligated to register these shares only if the outstanding registrable securities have an anticipated public offering price of at least

$5,000,000. Also, holders of registrable securities may require, on one occasion in any 12 month period that shares for public resale on Form S-3 or similar short form registration if the value of the securities to be registered is at least $500,000. Furthermore, in the event we determine to register any of our securities under the Securities Act of 1933, either for our own account or for the account of other security holders exercising their registration rights, the holder of registrable securities are entitled to include their shares of common stock in the registration. The registration rights are subject to conditions and limitations, among them our right to limit the number of shares included in the registration which may reduce the number of shares proposed to be registered in view of market conditions. These registration rights are triggered by this offering, but we have obtained waivers of such rights from all holders of registrable securities in connection with the offering. All expenses in connection with any registration, other than underwriting discounts and commissions, will be borne by us. All registration rights will terminate five years following the consummation of this offering.

Shareholder Rights Plan

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

The rights will not be exercisable and will not trade separately from our common stock until the earlier of - 10 days following a public announcement that a person or group of affiliated or associated persons, referred to individually or collectively as the acquiring person, has acquired beneficial ownership of 15% or more of the outstanding shares of our common stock, or - 10 business days (or such later date as may be determined by the board of directors) following commencement of or announcement of an intention to make a tender offer or exchange offer which would result in the beneficial ownership by a person of 15% or more of the outstanding shares of our common stock.

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

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

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

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

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

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

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

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

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

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

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

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

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

- a majority of each voting group entitled to vote; and - the holders of a majority of the outstanding voting shares, excluding the control shares held by the acquiror and shares held by the company's officers and employee directors.

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

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

- a merger or plan of share exchange;

- any sale, lease, mortgage or other disposition of the assets of the corporation where the assets have an aggregate market value equal to 10% or more of the aggregate market value of the corporation's assets or outstanding capital stock; or - certain transactions that result in the issuance of capital stock of the corporation to the interested shareholder.

These restrictions are not applicable if:

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

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

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

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

Nasdaq National Market Listing

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

Transfer Agent

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

Shares Eligible for Future Sale

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

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    Upon completion of this offering and assuming no exercise after that date of
the underwriters' over-allotment option or any outstanding options, we expect to
have       shares of common stock outstanding based on shares outstanding as of
February   , 2000.
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Of the shares of common stock, the shares that we expect to sell in the offering, and any shares of common stock sold upon exercise of the underwriters' over-allotment option, will be freely tradable without restriction under the securities act. However, there will be trading restrictions imposed on "affiliates" and "control persons" as defined under Rule 144. The remaining shares of common stock held by existing shareholders are restricted securities as that term is defined in Rule 144 of the securities act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 promulgated under the securities act, which rules are summarized below. As a result of the contractual restrictions described below and the provisions of Rule 144, the restricted securities will be eligible for sale in the public market immediately following the offering subject to the expiration of 180-day lock-up agreements with representatives of the underwriters and to volume limitations and other conditions under Rule 144. Following this offering, the holders of an aggregate of 18,139,219 of the outstanding shares of common stock have the right to require us to register their shares for sale upon meeting requirements to which the parties have previously agreed. See "Description of Share Capital--Registration Rights" for additional information regarding registration rights.

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

Eligibility of Restricted Shares for Sale in Public Market

At effective date	0
90 days after effective date	0
180 days after effective date	17,496,823
After 180 days post-effective date	2,239,212

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

Lock-up Agreements

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

Options and Warrants

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

Rule 144

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

- 1% of the then outstanding shares of common stock which are approximately shares immediately after the offering; or - the average weekly trading volume of our shares of common stock on the Nasdaq National Market during the four calendar weeks immediately preceding the date on which notice of the sale is filed with the SEC. Sales of restricted securities pursuant to Rule 144 are subject to certain

requirements relating to manner of sale, notice and availability of current public information about us. Our affiliates must also comply with the restrictions and requirements of Rule 144, other than the one-year holding period requirement, in order to sell shares of common stock which are not restricted securities.

RULE 144(k)

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

Rule 701

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

- by persons other than our affiliates, subject only to the manner of sale provisions of Rule 144; and - by our affiliates under Rule 144 without compliance with its one-year minimum holding period requirements.

Underwriting

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

Number of Name Common Shares

Salomon Smith Barney Inc..... Deutsche Bank Securities Inc..... SG Cowen Securities Corporation..... E*OFFERING Corp..... Total.....

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

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

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

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

lock-up expires, the trading price of the common stock and whether the person seeking the release is an officer, director or affiliate of Pixelworks. Salomon Smith Barney Inc. has no current intention to release shares subject to the lock-up agreements.

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

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

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

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

Paid by Pixelworks No Exercise Full Exercise

Per share..... Total.....

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

In connection with the offering, Salomon Smith Barney Inc. on behalf of the underwriters, may over-allot, or engage in syndicate covering transactions, stabilizing transactions and penalty bids. Over-allotment involves syndicate sales of shares of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the shares of common stock in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of shares of common stock made for the purpose of preventing or retarding a decline in the market price of the shares of common stock while the offering is in progress.

Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Salomon Smith Barney Inc., in covering syndicate short positions or making stabilizing purchases, repurchases shares originally sold by that syndicate member. These activities may cause the price of the shares of common stock to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected on the Nasdaq National Market or in the over-the-counter market, or otherwise and, if commenced, may be discontinued at any time.

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

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

Legal Matters

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

Experts

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

Where You Can Find More Information

We have filed with the Securities and Exchange Commission a Registration Statement on Form S-1. This Prospectus, which forms a part of the Registration Statement, does not contain all the information included in the Registration Statement. Certain information is omitted and you should refer to the Registration Statement and its exhibits. With respect to references made in this Prospectus to any of our contracts or other documents, such references are not necessarily complete and you should refer to the exhibits attached to the Registration Statement for copies of the actual contract or document. You may review a copy of the Registration Statement, including exhibits and schedules filed therewith that we have filed at the Securities and Exchange Commission's public reference facilities in Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the Securities and Exchange Commission located at 7 World Trade Center, Suite 1300, New York, New

York 10048, and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may also obtain copies of such materials from the Public Reference Section of the Securities and Exchange Commission, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Securities and Exchange Commission maintains a Web site at HTTP://WWW.SEC.GOV.

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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, 1998 1999 1999 (PRO FORMA) (UNAUDITED)

ASSETS			
Current assets:			
Cash and cash equivalents	$6,119	$12,199	
Accounts receivable, net	83	2,537	
Inventories	43	1,404	
Prepaid expenses and other current assets	11	21	
Total current assets	6,256	16,161	
Property and equipment, net	1,120	1,730	
Other assets, net	300	503	
	$7,676	$18,394	
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	$ 257	$ 712	
Accrued liabilities	241	1,518	
Line of credit	1,331	669	
Current portion of long-term obligations	--	492	
Total current liabilities	1,829	3,391	
Long-term obligations, less current portion	--	591	
Other long-term liabilities	--	6	
Total liabilities	1,829	3,988	
Redeemable convertible preferred stock, $.001 par value. Authorized 10,993,031 shares; 8,406,981 shares issued and outstanding in 1998 and 10,900,007 in 1999 (liquidation preference of $19,517 at December 31, 1999)	7,755	23,701	

Commitments and contingencies

Shareholders' equity (deficit):			
Common stock, $.001 par value. Authorized 22,000,000 shares; 5,000,000 and 6,582,877 shares issued and outstanding in 1998 and 1999, respectively, (pro forma 17,482,884)	--	--	$23,701
Warrants	71	--	--
Deferred stock compensation	--	(2,230)	(2,230)
Note receivable for common stock	--	(199)	(199)
Accumulated deficit	(1,979)	(6,866)	(6,866)
Total shareholders' equity (deficit)	(1,908)	(9,295)	$14,406
	$7,676	$18,394	

See accompanying notes to financial statements.

Pixelworks, Inc.

Statements of Operations

(In Thousands, Except Share and Per Share Data)

	PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31, 1997	YEARS ENDED DECEMBER 31, 1998	1999
Revenue:			
Product revenue, net	$ 25	$ 105	$ 12,647
Commissions	375	373	65
Licensing and development fees	--	500	100
Total revenue	400	978	12,812
Cost of revenue	24	22	8,369
Gross profit	376	956	4,443
Operating expenses:			
Research and development	215	1,446	4,805
Selling, general and administrative	590	1,314	4,366
Amortization of deferred stock compensation	--	--	565
Total operating expenses	805	2,760	9,736
Loss from operations	(429)	(1,804)	(5,293)
Interest and other:			
Interest income	14	238	519
Interest expense	--	(23)	(110)
Miscellaneous income	39	--	--
Interest and other income, net	53	215	409
Loss before income taxes	(376)	(1,589)	(4,884)
Income taxes	--	(14)	(3)
Net loss	(376)	(1,603)	(4,887)
Accretion of preferred stock redemption preference	--	(10)	(4,278)
Net loss attributable to common shareholders	$ (376)	$ (1,613)	$ (9,165)
Historical loss per share:			
Basic and diluted	$ (0.68)	$ (0.91)	$ (2.30)
Weighted average shares--basic and diluted	552,175	1,773,551	3,980,523

See accompanying notes to financial statements.

Pixelworks, Inc.

Statements of Redeemable Convertible Preferred Stock and Shareholders' Equity (Deficit)

(In Thousands, Except Share Data)

	REDEEMABLE CONVERTIBLE

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

	NOTE RECEIVABLE FOR COMMON STOCK	ACCUMULATED DEFICIT	TOTAL SHAREHOLDERS' EQUITY (DEFICIT)
Balances as of January 16, 1997.....	$ --	$ --	$ --
Sale of common stock.....	--	--	10
Issuance of Series A redeemable convertible preferred stock and warrants, net.....	--	--	71
Net loss.....	--	(376)	(376)
Balances as of December 31, 1997.....	--	(376)	(295)
Issuance of Series B redeemable convertible preferred stock.....	--	--	--
Accretion of preferred stock redemption preference.....	--	--	(10)
Net loss.....	--	(1,603)	(1,603)

Balances as of December 31, 1998.....	--	(1,979)	(1,908)
Issuance of Series C redeemable convertible preferred stock.....	--	--	--
Exercise of stock options.....	(199)	--	(37)
Exercise of warrants.....	--	--	1,250
Deferred compensation related to stock options.....	--	--	--
Amortization of deferred stock compensation.....	--	--	565
Accretion of preferred stock redemption preference.....	--	--	(4,278)
Net loss.....	--	(4,887)	(4,887)
Balances as of December 31, 1999.....	$(199)	$(6,866)	$(9,295)

See accompanying notes to financial statements.

Pixelworks, Inc.

Statements of Cash Flows

(In Thousands)

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

Net increase in cash and cash equivalents.....	367	5,752	6,080
Cash and cash equivalents at beginning of period.....	--	367	6,119
Cash and cash equivalents at end of period.....	$ 367	$ 6,119	$12,199
Supplemental disclosure of non-cash investing and financing activities:			
Accrued liabilities for the purchase of property and equipment.....	$ 75	$ --	$ --
Warrants issued in connection with preferred stock issuance.....	71	--	--
Conversion of line of credit to term note.....	--	--	1,331
Accretion of preferred stock redemption preference.....	--	10	4,278
Note receivable for issuance of common stock.....	--	--	199
Warrants exercised for common stock.....	--	--	71

See accompanying notes to financial statements.

Pixelworks, Inc.

Notes to Financial Statements

(In Thousands, Except Share and Per Share Data)

(1) Summary of Significant Accounting Policies

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

(b) CASH AND CASH EQUIVALENTS Pixelworks considers all highly liquid investments having an original maturity of three months or less to be cash equivalents.

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

December 31, 1998 1999

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

(d) INVENTORIES

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

(e) PROPERTY AND EQUIPMENT Property and equipment are stated at cost. The cost of repairs and maintenance is expensed as incurred.

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

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

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

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

presented, earnings per share, as if the fair value based method had been applied. Pixelworks has elected to continue to apply the prescribed accounting in Opinion 25 and make the required disclosures under SFAS 123.

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

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

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

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

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

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

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

Years Ended December 31, 1997 1998 1999

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

(l) COMPREHENSIVE INCOME Pixelworks has had no items of comprehensive income.

(m) USE OF ESTIMATES

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

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

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

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

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

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

Pixelworks, Inc.

Notes to Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

(2) Balance Sheet Components

(a) PROPERTY AND EQUIPMENT Property and equipment consist of the following:

December 31, 1998 1999

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

(b) ACCRUED LIABILITIES Accrued liabilities consist of the following:

December 31, 1998 1999

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

(3) Line of Credit

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

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

(4) Long-term Debt

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

Pixelworks, Inc.

Notes to Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

(5) Redeemable Convertible Preferred Stock

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

	SHARES ISSUED AND OUTSTANDING DECEMBER 31,	
DESIGNATED SHARES	1998	1999

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

(a) VOTING

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

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

(c) REDEMPTION

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

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

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

(d) CONVERSION

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

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

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

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

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

(6) Shareholders' Equity

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

Pixelworks, Inc.

Notes to Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

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

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

(b) WARRANTS

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

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

(c) NOTE RECEIVABLE FOR COMMON STOCK During 1999, 250,000 stock options were exercised for 46,042 and 203,958 shares of common stock and common stock subject to vesting, respectively, in exchange for a note receivable. The note receivable is due and payable the earlier of 1) August 31, 2008

or 2) upon termination of the borrower's employment and bears interest at 6% per year, payable annually. The note receivable is secured by the shares of common stock issued thereunder. As of December 31, 1999, there were 189,794 shares of unvested common stock.

(d) STOCK OPTIONS

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

(6) Shareholders' Equity (Continued)

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

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

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

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

1997 1998 1999

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

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

Pixelworks, Inc.

Notes to Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

(6) SHAREHOLDERS' EQUITY (CONTINUED) The following is a summary of stock option activity:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding as of January 16, 1997.....	--	$ --
Granted.....	70,500	.25
Options outstanding as of December 31, 1997.....	70,500	.25
Granted.....	778,000	.25
Canceled.....	(500)	.25
Options outstanding as of December 31, 1998.....	848,000	.25
Granted.....	1,454,250	1.96
Exercised.....	(347,412)	.47
Canceled.....	(12,000)	.25
Options outstanding as of December 31, 1999.....	1,942,838	$1.49

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

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

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

(7) Income Taxes

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

Pixelworks, Inc.

Notes to Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

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

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

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

December 31, 1998 1999

Deferred tax assets:		
Net operating loss carryforwards.....	$ 665	$ 1,920

Research and experimentation credit	63	273
Accrued vacation	27	54
Allowance for doubtful accounts	4	59
Depreciation and amortization	52	221
Other	3	201
Total gross deferred tax assets	814	2,728
Less valuation allowance	(814)	(2,728)
Net deferred tax assets	$ --	$ --

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

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

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

(8) Segment Information

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

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

(b) GEOGRAPHIC INFORMATION Revenue by geographic region was as follows:

PERIOD FROM JANUARY 16, 1997 (DATE OF INCEPTION) TO DECEMBER 31,	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.

Pixelworks, Inc.

Notes to Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

(9) COMMITMENTS AND CONTINGENCIES (CONTINUED) (c) LEASES Pixelworks leases office space under various operating leases which expire at various dates through 2004. Future minimum payments under the leases are as follows:

Years Ending December 31:

2000	$ 448
2001	498
2002	514
2003	509
2004	212
Total	$2,181

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

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

(d) CONTINGENCIES

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

(10) Subsequent Events (Unaudited)

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

(b) LICENSE PURCHASE

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

Pixelworks, Inc.

Notes to Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

(10) Subsequent Events (Unaudited) (Continued)

Years Ending December 31:

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

[Inside Back Cover]

Shares

Pixelworks, Inc.

Common Stock

[Logo]

Prospectus

, 2000

Salomon Smith Barney

Deutsche Banc Alex. Brown

Sg Cowen

*E*offering*

Part Ii Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution.

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

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

* Estimate.

Item 14. Indemnification of Directors and Officers.

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

Section 60.387 et seq. of the OBCA allows corporations to indemnify their directors and officers against liability where the director or officer has acted in good faith and with a reasonable belief that actions taken were in the best interests of the corporation or at least not adverse to the corporation's best interests and, if in a criminal proceeding, the individual had no reasonable cause to believe the conduct in question was unlawful. Under the OBCA, corporations may not indemnify against liability

in connection with a claim by or in the right of the corporation but may indemnify against the reasonable expenses associated with such claims. Corporations may not indemnify against breaches of the duty of loyalty. The OBCA provides for mandatory indemnification of directors against all reasonable expenses incurred in the successful defense of any claim made or threatened whether or not such claim was by or in the right of the corporation. Finally, a court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances whether or not the director or officer met the good faith and reasonable belief standards of conduct set out in the statute. Article IV of the Restated Articles requires us to indemnify our directors and officers to the fullest extent not prohibited by law.

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

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

Item 15. Recent Sale of Unregistered Securities.

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

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

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

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

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

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

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

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

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

Item 16. Exhibits.

(a) The following exhibits as filed herewith:

No._description

Exhibit No. Document

1.1 * Form of Underwriting Agreement.

3.1 * Fifth Amended and Restated Articles of Incorporation of Pixelworks, Inc.

3.2 * Sixth Amended and Restated Articles of Incorporation of Pixelworks, Inc.

3.3 First Restated Bylaws of Pixelworks, Inc.

4.1 Reference is made to Exhibit 3.1.

4.2 Third Amended Registration Rights Agreement dated February 22, 2000.

```
4.3 *          Rights Agreement between Pixelworks, Inc. and
               dated            .
```

5.1 * Opinion of Ater Wynne LLP as to the legality of the Common Stock being registered.

10.1 Form of Indemnity Agreement between Pixelworks, Inc. and each of its Officers and Directors.

10.2 Pixelworks, Inc. 1997 Stock Incentive Plan.

10.3 Loan and Security Agreement dated August 14, 1998 between Silicon Valley Bank and Pixelworks, Inc.

10.4 Loan Modification Agreement (modification to Exhibit 10.3) dated April 9, 1999 between Silicon Valley Bank and Pixelworks, Inc.

10.5 Negative Pledge Agreement dated August 14, 1998 between Silicon Valley Bank and Pixelworks, Inc.

10.6 Pixelworks, Inc. 2000 Employee Stock Purchase Plan.

10.7 Lease Agreement dated April 14, 1999 between Southcenter III and IV Investors LLC and Pixelworks, Inc.

10.8 + VAutomation Incorporated Synthesizable Soft Core Agreement dated November 4, 1997 between VAutomation Incorporated and Pixelworks, Inc.

10.9 + Intellectual Property Sublicense Agreement dated March 30, 1999 between VAutomation Incorporated and Pixelworks, Inc.

10.10 License Agreement dated February 22, 2000 between Pixelworks, Inc. and InFocus Systems, Inc.

23.1 * Consent of Ater Wynne LLP. Reference is made to Exhibit 5.1.

23.2 Consent of KPMG LLP.

24.1 Powers of Attorney. Reference is made to the signature page hereof.

27.1 Financial Data Schedule.

* To be filed by amendment.

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

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

Item 17. Undertakings.

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

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than our payment of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such director, officer or

controlling person in connection with the securities being registered hereunder, we will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

We hereby undertake:

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

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

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

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

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

Signatures

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

Pixelworks, Inc.

By: /s/ ALLEN H. ALLEY Allen H. Alley PRESIDENT

Power of Attorney

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

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

Signature Title

/s/ ALLEN H. ALLEY --- Allen H. Alley	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ JEFFREY B. BOUCHARD --- Jeffrey B. Bouchard	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)

/s/ OLIVER D. CURME ---------- Director Oliver D. Curme /s/ MARK A. STEVENS ---------- Director Mark A. Stevens /s/ FRANK GILL ---------- Director Frank Gill

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