

PIXELWORKS, INC
Form DEF 14A
April 13, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant x
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Check the appropriate box:
 o Preliminary Proxy Statement
 o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 x Definitive Proxy Statement
 o Definitive Additional Materials
 o Soliciting Material Pursuant to §240.14a-12

PIXELWORKS, INC.
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

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4) Date Filed:

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 10, 2017

The 2017 Annual Meeting of Shareholders of Pixelworks, Inc. will be held May 10, 2017 at 12:00 p.m. Pacific Daylight Time at our offices at 224 Airport Parkway, Suite 400, San Jose, California 95110, to conduct the following items of business:

1. To elect five Directors to serve until the 2018 Annual Meeting of Shareholders or until their successors are duly elected or qualified;
2. To approve the amended and restated 2006 Stock Incentive Plan;
3. To ratify the appointment of KPMG LLP as Pixelworks' independent registered public accounting firm for the current fiscal year; and
4. To transact any other business that properly comes before the meeting or any postponement or adjournment of the meeting.

The foregoing items of business are more fully described in the Proxy Statement which accompanies this Notice of Annual Meeting of Shareholders. None of the proposals requires the approval of any other proposal to become effective. Shareholders who owned shares of our common stock at the close of business on March 17, 2017 are entitled to receive notice of, attend and vote at the meeting or any postponement or adjournment of that meeting. Beginning two business days after this Notice is given, a complete list of shareholders entitled to vote at the Annual Meeting of Shareholders will be available at the Secretary's office at 224 Airport Parkway, Suite 400, San Jose, California 95110. Your vote is important. Whether or not you plan to attend the meeting, please cast your vote as promptly as possible.

BY ORDER OF THE BOARD OF DIRECTORS

Todd A. DeBonis
President and Chief Executive Officer
(Principal Executive Officer)
San Jose, California
April 13, 2017

This Proxy Statement and accompanying proxy card are first being distributed on or about April 13, 2017.

This Proxy Statement, along with the proxy card and our Annual Report on Form 10-K are available on our website at www.pixelworks.com.

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PIXELWORKS, INC.

224 Airport Parkway, Suite 400

San Jose, CA 95110

PROXY STATEMENT

2017 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MAY 10, 2017

THE MEETING

Purpose, Date, Time and Place

This proxy statement (the "Proxy Statement") is being provided in connection with the 2017 Annual Meeting of Shareholders (the "Annual Meeting") of Pixelworks, Inc. ("Pixelworks" or the "Company"), an Oregon corporation, or any postponement or adjournment of that meeting. The related proxy is solicited on behalf of the Board of Directors (the "Board") of the Company. These proxy materials were first sent to shareholders on or about April 13, 2017.

The Annual Meeting will be held at 12:00 p.m. Pacific Daylight Time, on May 10, 2017, at our offices at 224 Airport Parkway, Suite 400, San Jose, California 95110, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders.

Record Date

Shareholders of Pixelworks common stock at the close of business on March 17, 2017, the record date established by the Board, will be entitled to receive notice of, attend and vote at the Annual Meeting. On the record date, there were approximately 70 registered shareholders of record and a substantially greater number of beneficial owners because a significant portion of our outstanding common stock is held in broker "street name." On the record date there were 29,536,777 shares of common stock outstanding and each share of common stock is entitled to one vote on each matter.

Appointment of Proxy Holders

Our Board asks you to appoint Todd A. DeBonis and Steven L. Moore as your proxy holders to vote your shares at the Annual Meeting. You may make this appointment by voting the enclosed proxy card using one of the voting methods described below.

If appointed by you, the proxy holders will vote your shares as you direct on the matters described in this Proxy Statement. In the absence of your direction, they will vote your shares as recommended by our Board.

Unless you otherwise indicate on the proxy card, you also authorize your proxy holders to vote your shares on any matters not known by our Board at the time this Proxy Statement was printed and which, under our Second Amended and Restated Bylaws, may be properly presented for action at the Annual Meeting.

Voting

Shares Registered in Your Name

You may vote shares registered in your name in person at the Annual Meeting, or by proxy by using the enclosed proxy card, over the telephone or on the Internet. Whether or not you plan to attend the Annual Meeting, we urge you to vote to ensure your vote is counted. You may still attend the Annual Meeting and vote in person if you have already voted by proxy.

To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the 1. envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

2. To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive.

To vote over the telephone, dial toll-free (800) 690-6903 using a touch-tone phone and follow the recorded

3. instructions. You will be asked to provide the control number from the enclosed proxy card. Your vote must be received by 11:59 p.m., Eastern Daylight Time on May 9, 2017 to be counted.

To vote on the Internet, go to www.proxyvote.com to complete an electronic proxy card. You will be asked to

4. provide the control number from the enclosed proxy card. Your vote must be received by 11:59 p.m., Eastern Daylight Time on May 9, 2017 to be counted.

If shares are registered in your name and you execute a proxy but either (i) indicate when voting on the Internet or by telephone that you wish to vote as recommended by the Board or (ii) sign and return a proxy card without providing specific voting instructions, the shares will be voted:

1. “FOR” each of the five nominees for Director listed in this Proxy Statement;
2. “FOR” approval of the amended and restated 2006 Stock Incentive Plan; and
3. “FOR” the ratification of KPMG LLP as Pixelworks’ independent registered public accounting firm for the year ending December 31, 2017.

Shares Registered in the Name of Broker, Bank or Other Agent

If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization. Simply complete and mail the proxy card to ensure that your vote is counted. Alternatively, you may vote by telephone or over the Internet as instructed by your broker, bank or other agent. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker, bank or other agent included with these proxy materials, or contact your broker, bank or other agent to request a valid proxy.

If you are a beneficial owner of shares registered in the name of your broker, bank or other agent and you do not provide specific voting instructions to your broker, bank or other agent, under the rules of certain securities exchanges, including the NASDAQ rules, the broker, bank or other agent holding those shares may generally vote as the nominee determines in its discretion on behalf of the beneficial owner on routine matters, but cannot vote on non-routine matters, the latter of which results in “broker non-votes.” We understand that, under NASDAQ rules, proposals one and two involve non-routine matters, and without your instruction, your broker cannot vote your shares. Accordingly, broker non-votes are expected. No broker non-votes are expected for proposal three as it involves matters we believe to be routine. See “ — Effect of Abstentions and Broker Non-Votes,” below.

Revocability of Proxy

You can revoke your proxy at any time before the final vote at the Annual Meeting. You may revoke your proxy in any one of three ways:

1. A duly executed proxy card with a later date or time than the previously submitted proxy;
2. A written notice that you are revoking your proxy sent to our Secretary, care of Pixelworks, Inc., 224 Airport Parkway, Ste. 400, San Jose, CA 95110; or
3. A later-dated vote by telephone or Internet or a ballot cast in person at the Annual Meeting (simply attending the Meeting will not, by itself, revoke your proxy).

Quorum

A quorum is required for the shareholders to conduct business at the Annual Meeting. The presence, in person or by proxy, of a majority of the total number of outstanding shares of our common stock entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting. Abstentions, broker non-votes and other proxies received but not marked, if any, will be included in the calculation of the number of shares considered to be present at the Annual Meeting for quorum purposes.

Votes Required to Adopt Proposals

Each outstanding share of our common stock on the record date is entitled to one vote on each of the five Director nominees and one vote on each other matter. Our Directors are elected by a plurality of the votes cast by the shares entitled to vote in the matter. This means that the five nominees for Director receiving the most affirmative votes will be elected. Approval of other matters requires that the majority of the votes cast “for” the matter exceed the number of votes cast “against” the matter.

Effect of Abstentions and Broker Non-Votes

Abstentions, broker non-votes and shares not present at the meeting are counted for purposes of determining whether a quorum exists at the Annual Meeting, but have no effect on the results of voting. If you are a beneficial holder and do not provide specific voting instructions to your broker, bank or other agent, the organization that holds your shares will not be authorized to vote on the election of Directors or approval of the amended and restated 2006 Stock Incentive Plan.

Expenses and Solicitation

The Company will bear the cost of this solicitation. Our Directors, officers, and other employees, without additional compensation, may also solicit proxies personally or in writing, by telephone, email, or otherwise. We are required to request that brokers and nominees who hold stock in their names furnish our proxy materials to the beneficial owners of the stock, and we must reimburse these brokers and nominees for the expenses of doing so in accordance with statutory fee schedules. At this time, we have not engaged a proxy solicitor. If we do engage a proxy solicitor, we will pay the customary costs associated with such engagement.

Electronic Delivery of Proxy Materials

Any shareholder may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis. Choosing to receive future proxy materials by email will save the Company the cost of printing and mailing documents to shareholders and will reduce the impact of annual meetings on the environment. A shareholder who chooses to receive future proxy materials by email will receive an email prior to next year's annual meeting with instructions containing a link to those materials and a link to the proxy voting website. A shareholder's election to receive proxy materials by email will remain in effect until the shareholder terminates it. You may request to receive proxy materials by email by entering the control number provided on your proxy card at www.investordelivery.com or www.proxyvote.com.

Householding of Proxy Materials

We are "householding" our proxy materials pursuant to Securities and Exchange Commission ("SEC") rules. This procedure allows the Company to reduce its printing costs, mailing costs and fees by delivering one copy of our annual report and Proxy Statement to multiple shareholders who share the same mailing address, unless the Company received contrary instructions from an affected shareholder.

We will promptly deliver upon written or oral request a separate copy of this Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 to any shareholder at a shared address to which a single copy of any of these documents was delivered. To request a separate copy of any of these documents, shareholders may write or call the Company at our principal executive offices:

Pixelworks, Inc.

Attn: Secretary

224 Airport Parkway, Ste. 400

San Jose, CA 95110

(408) 200-9200

Shareholders of record who would like to revoke householding consent and receive a separate copy of proxy materials, and shareholders sharing an address and receiving multiple copies of proxy materials who would like to give householding consent and request delivery of a single copy of these documents, should contact Broadridge Financial Solutions, Inc., either by calling toll free at (800) 579-1639 or by writing to Broadridge, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. Within 30 days of receipt of revocation of a shareholder's consent, the shareholder will be removed from the householding program. If you hold your shares in street name, please contact your bank, broker or other holder of record to request information about householding.

PROPOSAL NO. 1: ELECTION OF DIRECTORS

Our Sixth Amended and Restated Articles of Incorporation, as amended by the First, Second and Third Amendments thereto, and our Second Amended and Restated Bylaws provide that the number of members of the Board shall not be less than three or more than twelve with the exact number to be fixed by resolution of the Board. Our Sixth Amended and Restated Articles of Incorporation, as amended, and our Second Amended and Restated Bylaws require that our Board be divided into three classes serving staggered terms when the authorized number of Directors is fixed at eight or more, and if the authorized number of Directors is fixed at seven or less, the Directors shall hold office until the earlier of the next annual meeting of shareholders, a successor being elected and qualified, or such member's resignation, death or removal.

The authorized number of Directors is currently set at five (5) members. The Corporate Governance and Nominating Committee recommended to the Board that each of Todd A. DeBonis, C. Scott Gibson, Daniel J. Heneghan, Richard L. Sanquini and David J. Tupman be nominated for reelection to serve as Directors of the Company until the next annual meeting of shareholders.

In the event these five nominees for Director are re-elected, following the Annual Meeting, our Board would consist of the following individuals.

Name	Age	Committees
Todd A. DeBonis	52	None
C. Scott Gibson	64	Audit, Compensation and Corporate Governance and Nominating
Daniel J. Heneghan	61	Audit (Chair) and Corporate Governance and Nominating
Richard L. Sanquini*	82	Audit and Compensation (Chair)
David J. Tupman	54	Compensation and Corporate Governance and Nominating (Chair)

*Chairman of the Board

The proxies given to the proxy holders will be voted or not voted as directed and, if no direction is given, will be voted FOR the five nominees. If any nominee is unable or declines to serve as Director at the time of the Annual Meeting, an event not now anticipated, proxies will be voted for any nominee designated by our Board to fill the vacancy.

Director Nominees for Election

In accordance with SEC regulations, the names of the nominees and certain biographical information about the nominees, including the Director's business experience, director positions held currently or at any time during the last five years, information regarding involvement in certain legal or administrative proceedings, if applicable, and the experiences, qualifications, attributes or skills that caused the Corporate Governance and Nominating Committee to recommend that the nominee should serve on our Board, are set forth below. For additional information about how we identify and evaluate nominees for Director, see " — Qualifications of Directors."

TODD A. DEBONIS has served as our Chief Executive Officer and as a Director since April 2016, and previously served as our Chief Operating Officer from February 2016 to April 2016, and as our Executive Vice President, Sales, Marketing & Business Development from January 2016 to February 2016. Prior to joining Pixelworks, Mr. DeBonis served as the Vice President of Global Sales & Strategic Development at TriQuint Semiconductor, a semiconductor company, from April 2004 to December 2015, where his responsibilities included global sales, business development, strategic planning, customer support, contract negotiation and corporate marketing. Prior to TriQuint, Mr. DeBonis served as Vice President of Worldwide Sales & Marketing at Centillum Communications, a designer, developer and supplier of integrated programmable SoC solutions, Vice President of Worldwide Sales of Ishoni Networks, a silicon and software solution provider, and also held executive positions at Infineon Technologies, VisCom Corporation and Electec SoCal. Mr. DeBonis also serves on the Board of Directors of Poet Technologies Inc. (TSX VENTURE: PTK). Mr. DeBonis received a B.S. in Electrical Engineering with a focus in digital design and control systems from the University of Nevada.

Mr. DeBonis' leadership and in-depth knowledge of the operations of the Company contribute to informed decision-making at the Board level. In addition, his prior experience as an executive at complementary semiconductor companies provides him with critical analysis and decision-making skills, deep relationships within our industry and knowledge of best-practices across the key functions of an organization.

C. SCOTT GIBSON has served as a Director of Pixelworks since May 2002 and currently serves on public company boards as his full time professional job. From January 1983 through February 1992, Mr. Gibson co-founded and served as President, and Co-CEO of Sequent Computer Systems, Inc., a computer systems company. Prior to co-founding Sequent, Mr. Gibson served as General Manager, Memory Components Operation, at Intel Corporation. Since March 1992, Mr. Gibson served as a Director for several high technology companies. Mr. Gibson currently serves on the Board of Directors of RadiSys Corporation (NASDAQ: RSYS), Northwest Natural Gas Company (NYSE: NWN) and Qorvo, Inc. (NASDAQ: QRVO). Within the past five years, Mr. Gibson also served on the Board of Directors of Verigy (NASDAQ: VRGY) and TriQuint Semiconductor, which subsequently merged with RF Micro Devices, Inc., and became Qorvo, Inc. in January 2015. Mr. Gibson serves as Trustee of the St. John's Medical Center, and the Community Foundation of Jackson Hole. Mr. Gibson holds a B.S.E.E. and an M.B.A. from the University of Illinois. Mr. Gibson was awarded the NACD Board Fellow credential in January 2017.

Mr. Gibson's semiconductor expertise and experience in the high-technology industry provide him with a deep understanding of our business. Mr. Gibson's significant experience as a director of other public companies provides him with a current working knowledge of business and economic trends that affect our industry. Mr. Gibson's prior experience co-founding and leading Sequent Computer Systems, along with other senior management positions he has held, provide him with insight into a range of issues that face Pixelworks. Through his board experience, Mr. Gibson has worked extensively with compensation consultants, and has gained a thorough knowledge of executive compensation trends and practices. Additionally, Mr. Gibson's extensive work on public and non-profit audit committees, and his qualification as an audit committee financial expert as defined by SEC rules, lends perspective and experience to our Audit Committee.

DANIEL J. HENEGHAN has served as a Director of Pixelworks since April 2006. Mr. Heneghan currently serves as an advisor to the semiconductor industry. From 1999 to 2005, he served as Vice President and Chief Financial Officer of Intersil Corporation, a world leader in the design and manufacture of high performance analog solutions. From 1980 to 1999, Mr. Heneghan worked in various management positions in finance, information technology, purchasing and operations for Harris Corporation, an international communications and information technology company serving government and commercial markets, including the position of Vice President and Controller of Harris Semiconductor Corporation, which he held from 1996 until leaving the company. Mr. Heneghan served on the board of directors of NTELOS Holdings Corp. from February 2006 until it was acquired by Shenandoah Telecommunications in May 2016. Mr. Heneghan also served on the Board of Directors of Micrel, Inc. from November 2008, until it was acquired by Microchip Technology in August, 2015. Mr. Heneghan also served on the Board of Directors for Freescale Semiconductor, Inc. from July 2010 until it was acquired by NXP Semiconductors in December 2015. Mr. Heneghan is a graduate of Quincy University with a B.S. in accounting. Mr. Heneghan also earned an M.B.A. from Western Illinois University.

Mr. Heneghan's role as an advisor to the semiconductor industry brings the Company access to relationships with key industry participants and a current working knowledge of practices and developments in the industry. Additionally, Mr. Heneghan has experience directly managing companies that are complementary to, and face similar issues to those faced by Pixelworks. His leadership experience extends to financial and information technology oversight of large companies, which makes him particularly well suited to work with the Company on risk management and oversight. Mr. Heneghan's service on the audit committee of other publicly traded companies provides him with significant experience with financial and accounting developments.

RICHARD L. SANQUINI has served as a Director of Pixelworks since February 2010. For the past several years, Mr. Sanquini has worked as an industry consultant, investor, and board director with young companies and has a strong reputation for helping to build and prepare them for public offering and/or acquisition. In addition to Pixelworks, Mr. Sanquini currently serves on the boards of Synaptics Incorporated (NASDAQ: SYNA), a developer and supplier of custom designed human interface solutions, R2 Semiconductor Inc., a privately-held fabless semiconductor company, and Keyssa, Inc., a privately-held developer of wireless technology for data transfer. Mr. Sanquini has also served as a director on many successful startup company boards during the last few years, including serving as the Chairman of PortalPlayer, the company that developed the silicon and operating system for the Apple iPod. Prior to his current role, Mr. Sanquini worked at National Semiconductor, initially as vice president of microprocessors, microcontrollers, and peripherals' with subsequent roles of senior vice president of the consumer and commercial division and as the company's chief technology officer. He began his career at RCA's Solid State Electronics Division, as an integrated circuit design engineer and eventually served as the general manager and director of memories and microprocessors. Mr. Sanquini holds a BSEE from the Milwaukee School of Engineering, Wisconsin.

Mr. Sanquini's experience in senior management positions and his experience with intellectual property protection and China operations, provide him with specific knowledge that is valuable to the Board's understanding of our business. His current service on complementary public company boards allows him to draw on experiences and knowledge from across the industry, and enables him to identify best practices and developments. Mr. Sanquini has served as a chairman and member of the audit and compensation committees, and as a member of the nominations and corporate governance committees, of other public company boards, which supports his knowledge of corporate governance trends and regulatory requirements.

DR. DAVID J. TUPMAN has served as a Director of Pixelworks since April 2014 and as a consultant to Pixelworks since July 2012. Dr. Tupman is currently the CEO of Details Lab Inc., an advisory firm focusing on scaling organizations for high-growth, technology development and new product introduction. Since July 2015, Dr. Tupman has also served on the Board of Directors of Cirrus Logic Inc. (NASDAQ: CRUS). From 2001 to 2011, Dr. Tupman rose from manager to Vice President of hardware engineering at Apple, Inc., where he led the hardware engineering and technology teams for multiple mobile devices, including the iPhone and iPod devices. Prior to Apple, Dr. Tupman worked at Psion Computers in London, England from 1995 to 2001 as a hardware-engineering manager where he developed a number of PDAs including the Psion Series 5MX and the Revo. From 1988 to 1995, Dr. Tupman was a Principal Design Engineer at Schlumberger in Farnborough, England where he developed low power, high precision

sensors for the gas, fuel and aerospace industries. Dr. Tupman holds a Bachelors in Electronics Engineering from University of Salford, England, where he also received an honorary Doctor of Science degree in 2014. Dr. Tupman is named as an inventor on more than 30 U.S. patents.

Dr. Tupman brings over 25 years of engineering and technology experience in the consumer electronics and industrial markets, which we believe will provide valuable insights and industry expertise to our Board.

Required Vote

Directors will be elected by a plurality of the votes cast at the Annual Meeting where a quorum is present. This means the five Director nominees who receive the highest number of "for" votes properly cast will be elected as Directors, even if none receive a majority of the votes cast. Shareholders may not cumulate their votes. Because Directors are elected by a plurality of the votes, an "abstain" vote will have no effect on the outcome of the election but will be counted for purposes of determining whether a quorum is present. In addition, a "withheld" vote will not be counted in determining the number of votes cast for the Director nominees.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF ITS NOMINEES FOR DIRECTOR.

INFORMATION ABOUT OUR BOARD OF DIRECTORS

Board Responsibilities

The Board is governed by our Corporate Governance Guidelines, which can be found on our website at www.pixelworks.com. The Board's primary responsibilities include:

- Understanding the factors that determine the Company's success and the risks and problems that affect it;
- Understanding, reviewing, approving and overseeing fundamental business strategies, financial strategies and major corporate actions;
- Nominating Directors, reviewing the structure and operation of the Board and overseeing effective corporate governance;
 - Establishing a corporate environment that promotes timely and effective disclosure, financial accountability, high ethical standards and compliance with all applicable laws and regulations;
- Understanding the results of operations and financial condition of the Company;
- Evaluating the performance of the Company's senior executives and taking action where appropriate;
- Approving the compensation of the Company's senior executives and overseeing succession planning for these executives; and
- Providing advice and assistance to the Company's senior executives.

Board Structure

Our Board currently consists of five Directors. The current Board members include four independent Directors and our Chief Executive Officer ("CEO"). The Board believes that if all five nominees for Director are elected at the Annual Meeting, following the Annual Meeting there will be a majority of independent Directors on the Board.

Board Leadership Structure

Both independent and management Directors, including our CEO, are eligible for appointment as Chairman of the Board. Currently, the functions of Chairman of the Board and the CEO are separated. Among the duties of the Chairman of the Board is the management of the Board, including prioritizing current matters in front of the Board and setting the agenda for meetings with the input of management. Mr. Sanquini has served as Chairman of the Board since July 2010. The CEO manages the Company and is accountable for corporate performance. Mr. DeBonis has served as CEO and President of Pixelworks and has served on the Board since April 2016.

While both independent and management Directors are currently eligible to serve as Chairman of the Board, the Board believes that there may be advantages to having an independent Chairman of the Board for matters such as facilitating communications between the Board, the CEO, and other senior management and assisting the Board in reaching consensus on particular strategies and policies.

Director Independence

Our Corporate Governance Guidelines provide that a majority of our Directors will be independent. The Board affirmatively determines the independence of each Director and nominee for election as a Director in accordance with the elements of independence set forth in applicable NASDAQ and SEC rules. Periodically and no less than annually, the Board conducts a review of Director independence, which includes a review of all relevant transactions, if any, or relationships between each Director or any of his or her family members and the Company, any member of our senior management or our independent registered public accounting firm. Based on this review and the review and recommendation by the Corporate Governance and Nominating Committee, the Board affirmatively determined all of our Directors, except Todd A Debonis, our CEO, are independent as defined by the applicable rules of the SEC and NASDAQ and have no current relationship with the Company, except as a Director and shareholder. In addition, all Compensation Committee members are “outside directors” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), to allow our company a tax deduction for certain employee compensation exceeding \$1,000,000 for an individual. All Compensation Committee members are also “non-employee directors” within the meaning of Rule 16b-3 (“Rule 16b-3”) of the Securities Exchange Act of 1934 (the “Exchange Act”) to allow our Company to exempt certain option grants and similar transactions from the short-swing profits prohibition of Section 16 of the Exchange Act. To facilitate these determinations, annually each Director completes a questionnaire that provides information about relationships that might affect the determination of independence. Management provides the Corporate Governance and Nominating Committee and our Board with relevant facts and circumstances of any relationship bearing on the independence of a Director or nominee. As required under applicable NASDAQ listing standards, in the 2016 fiscal year, our independent Directors regularly met in scheduled executive sessions at which only independent Directors were present.

Board Oversight of Risk

Management continually monitors the material risks facing the Company, including financial, strategic, operational, and legal and compliance risks. An overall review of risk is inherent in the Board’s ongoing consideration of the Company’s long-term strategies, transactions and other matters presented to and discussed by the Board. Additionally, the Board formally reviews the Company’s risk management policies and practices at least annually, after receiving a report from the CEO and Chief Financial Officer (“CFO”). This annual review includes a discussion of the likelihood and potential magnitude of various risks, as well as any actions management has taken to limit, monitor or control those risks. The CEO and CFO also report to the Board, in a timely manner, events that arise that present material risks to the Company or that materially and adversely change previously identified risks. Additionally, although the full Board has responsibility for overall risk oversight, the Audit Committee annually reviews the Company’s investment policy, corporate information technology policy and risks related to currency fluctuations, and the Compensation Committee seeks to avoid creating incentives for employees to take excessive or inappropriate risks when establishing and administering compensation programs. In performing these functions, these committees assess the appropriateness of the Company’s policies relevant to these risks and consider changes to such policies as appropriate.

Board and Committee Meetings

Our Board holds regularly scheduled quarterly meetings and also holds special meetings and acts by written consent from time to time, as appropriate. At each quarterly Board meeting, time is set aside for the independent Directors to meet without management present. Our Board met seven times during 2016.

We have adopted a policy that requires a majority of Directors to attend annual meetings either in person or via telephone conference. All of our Directors that were elected at the 2016 annual meeting attended the 2016 annual meeting and each incumbent Director attended 75% or more of the Board meetings and meetings of the committees on which they served during the last fiscal year.

Standing Committees of the Board

The Board has adopted written charters for its three standing committees: the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee, all of which are available on our website at www.pixelworks.com.

The Board has determined that all members of the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee are independent Directors as defined by the applicable rules of the SEC and NASDAQ and that all members of such committees satisfy the relevant SEC and NASDAQ requirements for members of such committees.

Audit Committee

The Audit Committee provides objective oversight of corporate accounting, financial reporting practices and financial statement audits of the Company and has the responsibility to select, evaluate and, where appropriate, replace the Company's independent registered public accounting firm and is directly responsible for the oversight of the work of such independent registered public accounting firm. The Audit Committee reviews and discusses with management and the Company's independent registered public accounting firm the Company's audited financial statements and the effectiveness of the accounting and financial controls of the Company.

The current members of the Audit Committee are Directors Daniel J. Heneghan, who chairs the committee, C. Scott Gibson, and Richard L. Sanquini. After reviewing the qualifications of the members of the Audit Committee, the Board has determined that each member meets the financial experience requirements under the rules of the SEC and NASDAQ. In addition, the Board has determined that each member qualifies as an audit committee financial expert as defined by SEC rules.

The Audit Committee met five times in 2016.

Compensation Committee

The Compensation Committee assists the Board in fulfilling its responsibilities with respect to compensation of the Company's Directors, executive officers and employees and oversight and administration of the Company's incentive and stock-based compensation plans. The Compensation Committee determines compensation for the CEO and all other executive officers of the Company. The Compensation Committee's other responsibilities include evaluating candidates for executive positions, maintaining a CEO succession plan and reviewing the annual proxy statement.

The current members of the Compensation Committee are Directors Richard L. Sanquini, who chairs the committee, C. Scott Gibson, and David J. Tupman.

The Compensation Committee met six times in 2016.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee identifies individuals qualified to become members of the Board, recommends the slate of Directors to be nominated by the Board at the annual meeting of shareholders and recommends candidates to fill vacancies on the Board. The Corporate Governance and Nominating Committee is also responsible for developing and recommending to the Board a set of applicable corporate governance guidelines and principles, developing policies and procedures relating to the process for identification and evaluation of Director candidates and minimum qualifications for Directors, and overseeing an evaluation of the Board and recommending Directors to be appointed to committees of the Board (other than to the Corporate Governance and Nominating Committee itself).

The Corporate Governance and Nominating Committee will consider recommendations for nominees for Director submitted by shareholders. As set forth in our Second Amended and Restated Bylaws, shareholders seeking to make nominations for Directors should send written notice to the Secretary of the Company not less than 60 days nor more than 90 days prior to the meeting, provided, however, that in the event that less than 60 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a Director, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of stock of the Company beneficially owned by such person, and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including, without limitation, such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); and (b) as to the shareholder giving the notice, (i) the name and address, as they appear on the Company's books, of such shareholder, and (ii) the class and number of shares of stock of the Company which are beneficially owned by such shareholder. The Corporate Governance and Nominating Committee considers candidates recommended by shareholders in the same manner in which the Corporate Governance and Nominating Committee evaluates candidates recommended by other sources, including the Board and individual Directors.

The current members of the Corporate Governance and Nominating Committee are Directors David J. Tupman who chairs the committee, C. Scott Gibson, and Daniel J. Heneghan.

The Corporate Governance and Nominating Committee met one time in 2016.

Compensation Committee Interlocks and Insider Participation

No Director who served on the Compensation Committee during 2016 is, or has been, an officer or employee of the Company, nor has any Director had any relationships requiring disclosure under the SEC rules regarding disclosure of certain relationships and related-party transactions.

None of the Company's executive officers serve on the board of directors or the compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served on our Board or Compensation Committee.

Qualifications of Directors

The Corporate Governance and Nominating Committee conducts appropriate inquiries into the backgrounds and qualifications of proposed Director nominees. At a minimum, candidates must possess experience with businesses or organizations of comparable or greater size than the Company. If a candidate is deemed to have the requisite experience and qualifications, reference checks are performed before the Corporate Governance and Nominating Committee recommends the candidate for nomination to the Board.

Factors considered in the selection of Director nominees may include the following:

- Independence from management;
- Relevant business experience;
- Judgment, skill, integrity and reputation;
- Existing commitments to other businesses;
- Potential conflicts of interest with other pursuits;
- Legal considerations such as antitrust issues and involvement by the candidate in specific legal proceedings during the past ten years;
- Corporate governance background, including directorships held with public companies or investment companies registered under the Investment Company Act of 1940 at any time during the past five years;
- Financial and accounting background, to enable the committee to determine whether the candidate would be suitable for Audit Committee membership;
- Executive compensation background, to enable the committee to determine whether the candidate would be suitable for Compensation Committee membership; and
- The size and composition of the existing Board.

The Company is committed to nondiscrimination on the basis of age, gender, ethnic background, religious affiliation or other personal characteristics unrelated to the Company's purpose and mission. The Board does not have a policy with regard to the consideration of diversity in identifying Director nominees. However, the Board values diversity and considers qualifications and skills that are complementary to those of existing Board members to be highly desirable.

Director Compensation

The Compensation Committee periodically reviews Director compensation levels and practices, including retainer committee chair fees, equity compensation, and other forms of compensation, and recommends changes from time to time to the Board.

Fee Compensation

Members of our Board who were not officers or employees of the Company or any of its subsidiaries ("non-employee Directors") received cash compensation as follows during 2016:

- \$8,250 per quarter for service on the Board, with the exception of the Chairman of the Board, who received \$14,500 per quarter of service;
- \$2,000 per quarter for service on the Audit Committee, with the exception of the Chairman of the Audit Committee, who received \$4,750 per quarter of service;
- \$1,250 per quarter for service on the Compensation Committee, with the exception of the Chairman of the Compensation Committee, who received \$2,500 per quarter of service; and
- \$750 per quarter for service on the Corporate Governance and Nominating Committee, with the exception of the Chairman of the Corporate Governance and Nominating Committee, who received \$1,500 per quarter of service.

Equity Compensation

During 2016, non-employee Directors who continued to serve on the Board after the 2016 Annual Meeting of Shareholders received an award of RSUs equal to the quotient of \$31,000 divided by the 30-day average closing price of the Company's common stock for the 30 trading days immediately preceding the grant date. These awards are scheduled to vest on the first to occur of (1) the day before the next annual meeting of the Company's shareholders that follows the grant date, or (2) the first anniversary of the grant date, and are payable in shares of the Company's common stock.

The Company's Board compensation policy also provides that any newly elected or appointed non-employee Directors, upon election or appointment to the Board, will receive an initial option award to purchase shares of the Company's common stock that is calculated to have a grant date Black-Scholes value of \$47,000 based on the 30-day average closing price of the Company's common stock for the 30 trading days immediately preceding the grant date. The option will have an exercise price equal to the closing price of the Company's common stock on the grant date, and a maximum term of six years. The award will vest with respect to 25% of the shares on the first anniversary of the grant date, and ratably on a monthly basis thereafter for the next three years. During 2016, there were no newly elected or appointed non-employee Directors.

Each of the awards discussed above was, or currently would be, granted under the Company's 2006 Stock Incentive Plan (the "2006 Plan") and, in the event of a change of control of the Company, any unvested portion of any then in effect and unexpired option will become fully vested immediately prior to the change of control.

Director Stock Ownership Requirement

Board membership includes a requirement that within two years of the date of joining the Board, members shall own at minimum the lower of the value of 10,000 shares or \$15,000 of common stock, to be held during each member's tenure on the Board.

Director Compensation Table — 2016

The following table reflects our non-employee Directors' compensation for fiscal year 2016. The compensation paid to Mr. DeBonis, our CEO and Mr. Walicek, our former CEO, who was also employed by us during 2016, is presented below in the "— Summary Compensation Table" and the related explanatory tables. The compensation paid to Mr. Domenik for his service as our Interim CEO from February to April 2016, is also included in the "— Summary Compensation Table" and the related explanatory tables. Mr. Domenik received no additional compensation for his service as a Director during his period of service as our Interim CEO. Directors who are also officers or employees of the Company or its subsidiaries receive no additional compensation for their services as Directors, and therefore Mr. DeBonis and Mr. Walicek are excluded from the table below.

Name	Fees Earned And Paid in Cash ⁽²⁾	Stock Awards ⁽¹⁾	Total
Mark A. Christensen ⁽³⁾	20,500	—	20,500
Barry L. Cox ⁽³⁾	20,500	—	20,500
Stephen L. Domenik ⁽⁴⁾	24,750	25,322	50,072
C. Scott Gibson ⁽⁵⁾	49,000	25,322	74,322
Daniel J. Heneghan ⁽⁵⁾	54,250	25,322	79,572
Richard L. Sanquini ⁽⁶⁾	74,000	25,322	99,322
David J. Tupman ⁽⁷⁾	42,750	25,322	68,072

This column represents the aggregate grant date fair value of stock awards granted to our non-employee Directors during 2016 calculated in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards (1)Codification ("ASC") Topic 718, "Compensation — Stock Compensation." For additional information on the valuation assumptions used for the grants, see Note 9 to the Company's consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

(2)

Each of our non-employee Directors who continued to serve on the Board after the 2016 Annual Meeting of Shareholders, including Mr. Domenik, Mr. Gibson, Mr. Heneghan, Mr. Sanquini and Dr. Tupman, received an RSU award covering 15,163 shares of our common stock on May 11, 2016, the date of our 2016 Annual Meeting of Shareholders. The grant date fair value of each RSU was \$25,322.

(3) Mr. Christensen and Mr. Cox resigned from the Board on May 11, 2016.

(4) Mr. Domenik resigned from the Board on November 14, 2016.

- (5) Mr. Gibson and Mr. Heneghan each held options to purchase 6,666 shares of our common stock and had 15,163 RSUs outstanding as of December 31, 2016.
- (6) Mr. Sanquini had 15,163 RSUs outstanding as of December 31, 2016.
- (7) Dr. Tupman held options to purchase 10,000 shares of our common stock and had 15,163 RSUs outstanding as of December 31, 2016.

Communications with the Board

Shareholders or other interested parties can contact any Director or committee of the Board by writing to them at:

Pixelworks Board of Directors

224 Airport Parkway, Ste. 400

San Jose, CA 95110

Board members may also be contacted via email at bod@pixelworks.com.

Communication received will be distributed to the full Board at the next regularly scheduled Board meeting, or sooner, if deemed necessary. Communication that is unduly hostile, threatening, illegal or similarly inappropriate will be discarded and appropriate legal action may be taken.

Code of Ethics

The Company has a Code of Business Conduct and Ethics (the “Code of Business Conduct”) that applies to all Directors and employees, including the CEO, CFO and all other executive officers of the Company. The Company also has a Code of Ethics for Senior or Designated Financial Personnel (the “Code of Ethics for Senior or Designated Financial Personnel”) that applies to our senior financial officers, including our CEO, CFO and other designated financial personnel. The Code of Ethics for Senior or Designated Financial Personnel and the Code of Business Conduct are available on our website at www.pixelworks.com. The Company intends to disclose any changes in or waivers from its Code of Ethics for Senior or Designated Financial Personnel by posting such information on its website at www.pixelworks.com or by filing a Current Report on Form 8-K.

PROPOSAL NO. 2: APPROVAL OF AMENDED AND RESTATED 2006 STOCK INCENTIVE PLAN

Overview

On April 5, 2017, based on a recommendation from our Compensation Committee, the Board approved an amendment and restatement of the Company's Amended and Restated 2006 Stock Incentive Plan (the "2006 Plan") and directed that it be submitted for shareholder approval at the Annual Meeting. The proposed amendment and restatement of the 2006 Plan increases the number of shares authorized for issuance thereunder by 1,300,000 shares to 11,983,333 shares. The proposal would also extend the term of the 2006 Plan until April 5, 2027, the date that is ten (10) years following the effective date of the restatement. These changes will be effective as of the date the Board approved the amendment and restatement of the 2006 Plan, subject to shareholder approval of this proposal at the Annual Meeting.

The Board determined that the available shares under the 2006 Plan were insufficient to provide annual grants to our executive officers and employees similar to those provided in the prior year. The Board believes that approval of this share reserve increase will allow the Company to provide additional long-term incentives to the Company's executive officers, employees and Directors, as well as maintain compensation packages that align our employees', executive officers', and Directors' interests to those of our shareholders and remain competitive to attract and retain individuals that can contribute to our success. If approved, the total number of shares available following the increase will represent approximately 5.4% of the Company's outstanding common stock, which the Board believes is a reasonable amount of potential dilution.

Promotion of Good Corporate Governance

The existing 2006 Plan includes a number of responsible corporate governance provisions. These include, but are not limited to, the following:

- No Discounted Options. Stock options and stock appreciation rights ("SARs") may not be granted with exercise prices lower than the fair market value of the underlying shares on the grant date.
- No Transferability. Awards generally may not be transferred, except by will or the laws of descent and distribution, except as otherwise specifically provided for in the award agreement.
- No Tax Gross-ups. The 2006 Plan does not provide for any tax gross-ups.

Key Data

As of March 17, 2017, awards representing the right to acquire 12,942,583 shares of our common stock have been granted pursuant to the 2006 Plan. As of March 17, 2017, there are 2,009,827 shares subject to awards outstanding under the 2006 Plan. The stock options outstanding under the 2006 Plan have a weighted average exercise price of \$2.28 and a weighted average remaining contractual life of 2.59 years. Our three year average burn rate for the years 2014 through 2016, calculated as the total number of shares granted, shares underlying options grants and shares underlying RSUs divided by our total common shares outstanding is 15.8%.

Based on the number of shares which have been issued under the 2006 Plan and those covered by awards outstanding, as of March 17, 2017, there are 284,663 shares that remain available for grant under the 2006 Plan prior to approval of the 1,300,000 share pool increase. This available share number reflects the reduction of the available share pool by 1.33 shares for each share issued on or after May 19, 2009, with respect to a full value award. Full value awards include RSUs and restricted share awards. The following table shows information regarding the distribution of awards under the 2006 Plan, as of March 17, 2017.

	Number of shares subject to stock options	Number of shares subject to RSU's	Total
Gross Number of Shares Covered by Past Awards	6,130,893	5,146,274	11,277,167
Adjustment for Full Value Awards (1.33:1 ratio for share pool)	—	1,665,416	1,665,416
Aggregate Past Grants (with Adjustment for Full Value Awards)	6,130,893	6,811,690	12,942,583
Cancellations	(2,151,717)	(392,196)	(2,543,913)
Outstanding Grants (with Adjustment for Full Value Awards)	3,979,176	6,419,494	10,398,670
Shares Currently Authorized for Issuance			10,683,333
Shares Currently Remaining Available for Grant			284,663

For a description of the 2006 Plan, see “ — Summary Description of the 2006 Stock Incentive Plan” below.

If our shareholders do not approve this proposal, the current share limits under, and other terms and conditions of, the 2006 Plan will continue in effect.

Summary Description of the 2006 Plan

In 2006, the Board adopted, and our shareholders approved, the 2006 Plan. The 2006 Plan has since been amended on certain occasions, most recently on May 11, 2016 when our shareholders approved an increase to the total number of authorized shares to 10,683,333. On April 5, 2017, the Board approved, subject to and effective upon shareholder approval, the amendment and restatement of the 2006 Plan to increase the number of shares authorized for issuance thereunder by 1,300,000 shares. If the proposal to amend and restate the 2006 Plan is approved by our shareholders, the total number of authorized shares will increase to a total of 11,983,333 shares, and the term of the 2006 Plan will be extended for a term of ten (10) years following the effective date of the amendment and restatement.

The following summary of the material features of the 2006 Plan is qualified by reference to the terms of the 2006 Plan, the full text of which is attached to this Proxy Statement as Appendix A in substantially the form in which it will take effect if this Proposal 2 is approved by the shareholders. The 2006 Plan has also been filed electronically with the SEC and, together with this Proxy Statement, can be accessed on the SEC's website at www.sec.gov. You may also obtain, free of charge, a copy of the 2006 Plan by writing to our Secretary, care of Pixelworks, Inc. at 224 Airport

Parkway, Suite 400, San Jose, CA 95110. If shareholder approval of this proposal is not obtained, no additional grants of options to purchase shares of common stock, SARs, restricted shares or RSUs under the 2006 Plan in excess of those authorized for issuance prior to the amendment and restatement would be made.

Eligibility

All of our employees, Directors and consultants are eligible to participate in the 2006 Plan. As of March 17, 2017, we have approximately 162 full-time employees and four non-employee Directors. Our Named Executive Officers (as defined below) received RSUs under the 2006 Plan in 2016 as set forth in this Proxy Statement in the " — Grants of Plan-Based Awards — 2016" table under "Executive Compensation." Our non-employee Directors received RSUs under the 2006 Stock Plan in 2016 as set forth in this Proxy Statement under "Information About our Board of Directors — Director Compensation."

Administration

The 2006 Plan is required to be administered by the Board or a committee appointed by the Board. The 2006 Plan is currently administered by the Compensation Committee of the Board, which is composed of members that are "non-employee directors" within the meaning of Rule 16b-3 under the Exchange Act and "outside directors" within the meaning of Section 162(m) of the Code. Subject to applicable law, our Board may also authorize one or more officers to designate employees, other than employees who are subject to Section 16 of the Exchange Act, to receive awards under the 2006 Stock Plan and/or determine the number of such awards to be received by such employees subject to limits specified by our Board. All questions of interpretation or application of the 2006 Plan are determined in the sole discretion of the Board or the Compensation Committee, whose decisions are final, conclusive and binding upon all participants. Members of the Board are permitted to participate in the 2006 Plan.

Subject to the provisions of the 2006 Plan, the Compensation Committee has the authority to construe and interpret the 2006 Plan, to prescribe, adopt, amend and rescind rules and regulations relating to the administration of the 2006 Plan and to make all other determinations necessary or advisable for its administration. Subject to the limitations of the 2006 Plan, the Compensation Committee also selects from among the eligible persons those individuals who will receive awards under the 2006 Plan, the type(s) of award(s) any such individual will receive and the terms of any such awards.

No Repricing

In no case (except due to an adjustment to reflect a stock split or similar event or any repricing that may be approved by shareholders) will any adjustment be made to a stock option or SAR award under the 2006 Plan (by amendment, cancellation and re-grant, exchange or other means) that would constitute a repricing of the per share exercise or base price of the award.

Shares Subject to the 2006 Plan

The maximum cumulative aggregate number of shares of our common stock to be issued under the 2006 Plan and currently approved by shareholders is 10,683,333, subject to adjustment as described below. At the Annual Meeting, the shareholders are being asked to approve an amendment and restatement of the 2006 Plan to increase the number of shares of common stock reserved for issuance thereunder by 1,300,000 shares. The maximum number of shares that may be issued upon the exercise of Incentive Stock Options would also be increased to the same number.

Since May 19, 2009, shares issued in respect of any "full-value award" granted under the 2006 Plan count against the share limit described above as 1.33 shares for every one share issued in connection with the award. For example, if the Company granted a stock bonus award covering 100 shares of its common stock under the 2006 Plan, 133 shares would be charged against the share limit with respect to that award. For this purpose, a "full-value award" generally means any award granted under the 2006 Plan other than a stock option or SAR. Stock options and SARs will be counted against the share limit on a share-for-share basis.

Shares that are subject to or underlie awards which expire or for any reason are canceled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under the 2006 Plan will again be available for subsequent awards under the 2006 Plan. The following types of shares will not be available for future award grant purposes under the 2006 Plan: (1) shares subject to a stock option or SAR that are not issued or delivered as a result of the net settlement of the award; (2) shares used to pay the exercise price or withholding taxes related to an outstanding award; or (3) shares repurchased on the open market using the proceeds of the exercise of a stock option.

No employee may receive options or SARs under the 2006 Plan that cover more than 250,000 shares cumulatively in any fiscal year, except that options or SARs covering up to an additional 250,000 shares may be granted in connection with a person's initial employment with the Company.

Types of Awards

Under the 2006 Plan we can grant stock options and stock-settled SARs. However, only employees may receive Incentive Stock Options. The 2006 Plan also allows us to grant to our employees, Directors and consultants awards of restricted stock, stock bonuses and other forms of awards granted or denominated in the Company's common stock or units of the Company's common stock.

Stock Options: The Compensation Committee may grant stock options to participants subject to the terms and conditions established by the Compensation Committee. A stock option represents a right to purchase a specified number of shares of our common stock at a certain exercise price during a specified period. A stock option may be in the form of an Incentive Stock Option or a stock option that does not qualify for incentive treatment (a "Nonqualified Stock Option") under the Code. The option award agreement will specify the vesting, exercisability and other terms of the award. The maximum term of an option granted under the 2006 Plan is six years (or five years in the case of an Incentive Stock Option granted to an employee who at the time owns more than 10% of the total combined voting power of all classes of the capital stock of the Company).

SARs: The Compensation Committee may grant SARs to participants subject to the terms and conditions established by the Compensation Committee. The term of a SAR may not exceed six years. When exercised, a SAR entitles the participant to a payment based on the excess of the fair market value of a share of common stock on the exercise date over the fair market value of a share of common stock on the grant date. Payment shall be made solely in shares of our common stock. The SAR award agreement will specify the vesting, exercisability and other terms of the award.

Restricted Stock Units: The Compensation Committee may grant RSUs to participants subject to the terms and conditions established by the Compensation Committee. RSUs give recipients the right to acquire a specified number of shares of stock at a future date upon the satisfaction of certain conditions, including any vesting arrangement, established by the Compensation Committee and as set forth in an RSU agreement. Generally an RSU is to be settled promptly after vesting by delivery of the shares subject to the RSU award. If the vesting date occurs during a trading blackout period, certain of our RSU award agreements provide for the automatic deferral of stock delivery until the end of such blackout period.

Exercise or Purchase Price

The exercise price of each Incentive Stock Option, Nonqualified Stock Option and SAR granted under the 2006 Plan will be determined by the Compensation Committee, but will be not less than 100% of the "Fair Market Value" (as defined in the 2006 Plan) of our common stock on the date of grant (or 110% of Fair Market Value in the case of an Incentive Stock Option granted to an employee who at the time owns more than 10% of the total combined voting power of all classes of the capital stock of the Company). Whether an option granted under the 2006 Plan is intended to be an Incentive Stock Option or a Nonqualified Stock Option will be determined by the Compensation Committee at the time the Compensation Committee acts to grant the option and will be set forth in the related stock option agreement. "Fair Market Value" for purposes of the 2006 Plan means the closing price of a share of common stock on a national exchange on which shares of common stock are then trading, if any, on the last market trading day on or before the grant date. If there is no listing or trading of common stock either on a national exchange or over-the-counter, the price will be determined by the Compensation Committee in its discretion. On March 17, 2017, the Fair Market Value was \$4.84 per share based on the closing price of the common stock as reported on the NASDAQ Global Market.

In the discretion of the Compensation Committee, the exercise price of any option or SAR granted under the 2006 Plan and the sale price of any shares sold under the 2006 Plan will be payable in full in cash, by check or by the optionee's promissory note (subject to any limitations of applicable law) delivered at the time of exercise. RSUs may only be settled in shares of our common stock. In the discretion of the Compensation Committee and upon receipt of all regulatory approvals, an optionee may be permitted to deliver as payment in whole or in part of the exercise price certificates for our common stock or other property deemed appropriate by the Compensation Committee. So-called cashless exercises as permitted under applicable rules and regulations of the SEC and the Federal Reserve Board also will be permitted in the discretion of the Compensation Committee.

Irrespective of the manner of payment of the exercise price of an option or the purchase price for shares, the delivery of shares pursuant to the exercise or purchase will be conditioned upon payment by the optionee or purchaser of amounts sufficient to enable us to pay all applicable federal, state and local withholding taxes.

Transferability of Awards

An award granted under the 2006 Plan will be nontransferable by the recipient other than by will or the laws of descent and distribution and will be exercisable during the recipient's lifetime only by the recipient or by his or her guardian or legal representative, except as otherwise specifically provided for in the award agreement. More particularly, an award may not be assigned, transferred (except as provided in the preceding sentence), pledged or hypothecated (whether by operation of law or otherwise), and will not be subject to execution, attachment or similar process, except as otherwise specifically provided for in the award agreement.

Conditions to Issuance of Stock Certificates; Legends

In order to enforce any restrictions imposed upon common stock issued upon exercise of any option or SAR granted under or any shares sold or issued pursuant to the 2006 Plan, the Compensation Committee may cause a legend or legends to be placed on any share certificates representing such common stock.

Adjustments upon Changes in Capitalization, Merger and Consolidation

If our outstanding shares of common stock are changed into or exchanged for cash or a different number or kind of shares or securities of Pixelworks or of another corporation through reorganization, recapitalization, reclassification, stock split-up, reverse stock split, stock dividend, stock consolidation, stock combination, stock reclassification or similar transaction, an appropriate adjustment will be made by the Compensation Committee in the number and kind of shares as to which awards may be granted, as well as in the price per share of the common stock covered by each outstanding award. In the event we sell all or substantially all of our assets or merge with or into another company, the Compensation Committee may (a) arrange to have the surviving or successor entity assume or grant replacement options with appropriate adjustments in the number and kind of securities and option prices, or (b) accelerate the vesting of and shorten the period during which options are exercisable. No fractional shares of common stock will be issued on account of any of the foregoing adjustments.

If we are dissolved or liquidated, each outstanding award will terminate immediately prior to the consummation of the dissolution or liquidation unless the Compensation Committee, in its sole discretion, declares that all awards will terminate as of a fixed date and accelerates the vesting schedule of all outstanding awards.

Amendment and Termination

The Board may at any time suspend, amend or terminate the 2006 Plan and may, with the consent of an award holder, make such modifications to the terms and conditions of such recipient's award as it deems advisable; provided, however, that the Company must obtain shareholder approval of any amendment to the extent necessary to comply with Rule 16b-3 or with Section 422 of the Code or with rules promulgated by NASDAQ. The amendment, suspension or termination of the 2006 Plan will not, however, without the consent of the participant to be affected, alter or impair any rights or obligations under any award.

Privileges of Stock Ownership

A participant in the 2006 Plan will not be entitled to the privilege of stock ownership as to any shares of common stock unless and until they are actually issued to the participant.

Termination

Unless earlier terminated by the Board or the Compensation Committee, the 2006 Plan will terminate automatically as of the close of business on April 5, 2026, the day preceding the tenth anniversary of the effective date of the 2006 Plan as approved by our shareholders last year. The termination of the 2006 Plan will not affect the validity of any award agreement outstanding at the date of such termination. However, if the shareholders approve this proposal to amend and restate the 2006 Plan, then the term will be extended through April 4, 2027, the day preceding the tenth anniversary of the effective date of such amendment and restatement.

Certain United States Federal Income Tax Consequences to Recipients of Awards

The following is only a summary of certain United States federal income tax consequences to recipients of awards under the 2006 Plan and is for general information purposes only. This summary is based on the United States federal income tax laws now in effect, and as currently interpreted, and does not take into account possible changes in such laws or interpretations. Furthermore, this summary is not intended to be exhaustive and, among other considerations, does not describe state, local or foreign tax consequences. This summary does not consider the United States federal income tax consequences to recipients in light of their individual circumstances or to recipients subject to special treatment under the federal income tax laws. **THIS SUMMARY IS NOT INTENDED AS TAX ADVICE TO ANY PERSON AND RECIPIENTS OF AWARDS SHOULD CONSULT THEIR OWN TAX ADVISORS FOR ANY FEDERAL, STATE, LOCAL AND FOREIGN TAX EFFECTS ON THEIR INDIVIDUAL CIRCUMSTANCES.**

Under the Code, neither the grant nor the exercise of Incentive Stock Options is a taxable event to the optionee (except to the extent an optionee may be subject to alternative minimum tax); rather, the optionee is subject to tax only upon the sale of the common stock acquired upon exercise of the Incentive Stock Option. Upon such a sale, the entire difference between the amount realized upon the sale and the exercise price of the option will be taxable to the optionee. Subject to certain holding period requirements, such difference will be taxed as a capital gain rather than as ordinary income.

Recipients who receive Nonqualified Stock Options or SARs will be subject to taxation upon exercise of such options or SARs on the spread between the Fair Market Value of the common stock on the date of exercise and the exercise price of such options or SARs. This spread is treated as ordinary income to the recipient, and the Company is permitted to deduct as a compensation expense a corresponding amount. Nonqualified Stock Options and SARs do not give rise to a tax preference item subject to the alternative minimum tax.

The current federal income tax consequences of other awards authorized under the 2006 Plan generally follow certain basic patterns: nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the Fair Market Value over the price paid (if any) only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); stock bonuses, stock units and other stock-based awards are generally subject to tax at the time of payment; and compensation otherwise effectively deferred is taxed when paid. In each of the foregoing cases, the Company will generally have a corresponding deduction at the time the participant recognizes income.

If an award is accelerated under the 2006 Plan in connection with a “change in control” (as this term is used in section 280G of the Code), the Company may not be permitted to deduct the portion of the compensation attributable to the acceleration if it exceeds certain threshold limits under the Code (and certain related excise taxes may be triggered). Furthermore, the aggregate compensation in excess of \$1,000,000 attributable to awards that are not “performance-based” within the meaning of Section 162(m) of the Code may not be permitted to be deducted by the Company in certain circumstances.

THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF FEDERAL INCOME TAXATION UPON PARTICIPANTS AND THE COMPANY WITH RESPECT TO THE GRANT AND EXERCISE OF AWARDS UNDER THE 2006 PLAN. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF A SERVICE PROVIDER’S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE SERVICE PROVIDER MAY RESIDE.

Other

Section 162(m) of the Code generally disallows a tax deduction to public companies for compensation over \$1,000,000 paid to the CEO and certain other executive officers in any taxable year of the company. Qualifying performance-based compensation is not subject to the deduction limit if certain requirements are met.

The 2006 Plan is not a tax-qualified deferred compensation plan under 401(a) of the Code, and is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended.

Section 409A of the Code provides certain requirements for non-qualified deferred compensation arrangements with respect to an individual's deferral and distribution elections and permissible distribution events. Awards granted under the 2006 Plan with a deferral feature will be subject to the requirements of Section 409A. If an award is subject to and fails to satisfy the requirements of Section 409A, the recipient of that award may recognize ordinary income on the amounts deferred under the award, to the extent vested, which may be prior to when the compensation is actually or constructively received. Also, if an award that is subject to Section 409A fails to comply with Section 409A's provisions, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income, as well as interest on such deferred compensation. Certain states have enacted laws similar to Section 409A which impose additional taxes, interest and penalties on non-qualified deferred compensation arrangements. We will also have withholding and reporting requirements with respect to such amounts.

Aggregate Past Grants Under the 2006 Plan

The following table shows information regarding the issuance of past awards under the 2006 Plan among the persons and groups identified below through March 17, 2017.

Name and Position	Number of shares subject to stock options	Number of shares subject to RSU's	Total
Named Executive Officers:			
Todd A. DeBonis ⁽¹⁾ President and CEO	350,000	290,000	640,000
Stephen L. Domenik ⁽¹⁾ Former Interim CEO	53,750	142,191	195,941