

**PIXELWORKS, INC.**  
**CHARTER OF THE AUDIT COMMITTEE**  
**OF THE BOARD OF DIRECTORS**

**I. COMMITTEE PURPOSE**

The Audit Committee (“the Committee”) of Pixelworks, Inc. (“the Company”) is appointed by the Board of Directors (“the Board”) to assist the Board in fulfilling its responsibilities and duties to the Company’s shareholders and the investment community with respect to corporate accounting, financial reporting practices and quality and integrity of financial reports. In meeting its responsibilities, the Committee shall maintain open avenues of communication with the independent auditors, Company management and the Board.

This Charter delegates certain responsibilities of the Board to the Committee. It does not assign executive responsibilities. In fulfilling its duties under this charter, the Committee shall be held to the standards of any member of the Board under applicable Oregon law (ORS 60.357 (1) through (3)) and is entitled to the protection of ORS 60.357 (4) in doing so. These statutory sections are attached to this Charter for easy reference. For example, it is the responsibility of the Company’s management, not that of the audit committee, to prepare the financial statements. It is the auditors’ responsibility to plan and conduct audits in accordance with generally accepted auditing standards and to issue an opinion about whether the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles.

**II. COMMITTEE STRUCTURE**

**A. COMMITTEE SIZE AND MEMBERSHIP**

The Committee shall be comprised of three or more directors. Members shall be appointed by the Board based on the recommendations of the Corporate Governance and Nominating Committee, and may be removed by the Board at any time. Each member shall be an “independent director” as determined by the Board in accordance with Section 301 of the Sarbanes-Oxley Act of 2002 (“the Act”), the rules and regulations of the Securities and Exchange Commission (“SEC”) and the NASDAQ stock market.

All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements. Additionally, at least one member of the Committee shall be an “audit committee financial expert” as defined by Section 407 of the Act.

**B. COMMITTEE CHAIR**

The Board may appoint one member to serve as Committee Chair to convene and chair all regular and special sessions of the Committee, to set agendas for Committee meetings,

and to determine and communicate to management and the full Board the information needs of the Committee. If the Board fails to appoint a Committee Chair, the members of the Committee shall elect a Chair by majority vote of the full Committee.

### **III. COMMITTEE MEETINGS**

The Committee shall meet four times a year or more frequently as circumstances dictate. The Committee Chair shall prepare and/or approve an agenda in advance of each meeting. The Committee may require members of management to attend its meetings and to provide pertinent information as necessary. The Committee, or at least its Chair or a majority of the Committee, shall communicate with management and the independent auditors (a) quarterly to review the Company's financial statements and significant findings based upon the timely review procedures performed, and (b) annually to review the results of the annual audit.

In addition, at least twice per year, the Committee shall meet privately in executive session with management, the independent auditors and as a committee to discuss any matters that the Committee or each of these groups believes should be addressed.

The Committee will cause to be kept adequate minutes of all of its proceedings and will either submit the minutes of each of its meetings to the Board, or report the matters raised at each of its meetings directly to the Board.

### **IV. DUTIES AND RESPONSIBILITIES**

In furtherance of its purpose, the Committee shall have the following specific duties and responsibilities:

#### **A. MAINTAIN THE COMMITTEE CHARTER**

The Committee is responsible for reviewing and reassessing the adequacy of this Charter at least annually, and for recommending any proposed changes to the Board for approval. The Committee is also responsible for ensuring that this Charter is published as required by SEC regulations.

#### **B. APPOINT AND MONITOR THE INDEPENDENT AUDITORS**

##### *Reporting Relationship and Oversight Role*

The independent auditors shall report directly to the Board and the Committee. The Committee has the responsibility to select, evaluate and, where appropriate, replace the independent auditor (or to nominate the independent auditor to be proposed for shareholder approval in any proxy statement).

The Committee shall be directly responsible for the oversight of the work of the independent auditors (including resolution of disagreements between management and

the auditors regarding financial reporting) for the purposes of preparing or issuing an audit report or related work. The Committee shall meet with the independent auditors prior to each annual audit to discuss the audit plan, including scope, staffing, locations, reliance upon management and general audit approach. However, it is not the Committee's responsibility to prepare and certify the Company's financial statements, to guarantee the independent auditors' report, or to guarantee other disclosures by the Company.

#### *Pre-Approve Fees Paid to Independent Auditors*

The Committee shall pre-approve all audit services and permitted non-audit services (including the fees and the terms thereof) to be performed for the Company by its independent auditors in accordance with the Company's Policy for Audit and Non-Audit Services.

#### *Evaluate Results of Independent Auditors' Work*

At least annually, the Committee shall review with the independent auditors all matters required to be discussed under Statement of Auditing Standards No. 61 and any problems or difficulties the auditors may have encountered in the course of their work. This review should include:

- (a) Any restrictions on the scope of activities or access to required information;
- (b) Any disagreements with management; and
- (c) Any significant changes in the planned scope of the audit.

The Committee shall obtain from the independent auditors assurance that Section 10A(b) of the Exchange Act has not been implicated. Section 10A(b) relates to illegal acts that have come to the attention of the independent auditors during the course of their work.

The Committee shall also review any management letter provided by the auditor to the Company.

#### *Monitor Performance of Independent Auditors*

The Committee shall review and evaluate the experience and qualifications of the senior members of the independent auditor's team on an annual basis. Also on an annual basis, the Committee shall review with the independent auditors the audit firm's quality control procedures.

#### *Monitor Independence of Independent Auditors*

The Committee shall monitor the independence of the auditors. To that end, the Committee is responsible for obtaining from the independent auditors a formal written

statement delineating all relationships between the auditor and the Company. The statement shall be consistent with Independence Standards Board Standard 1. It is the Committee's responsibility to actively engage the auditors in a dialogue with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditors.

The Committee shall ensure rotation of audit partners as required by applicable laws and regulations. As considered necessary, the Committee shall also consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent audit firm on a regular basis.

#### C. REVIEW FINANCIAL STATEMENTS AND DISCLOSURE MATTERS

The Committee shall review the annual and quarterly financial statements with management and the independent auditors prior to distribution or filing. The review shall include discussion of:

- (a) Critical accounting policies and practices used in preparation of the financial statements;
- (b) Significant financial reporting issues and judgments made in connection with the preparation of the financial statements including significant changes in selection or application of accounting principles;
- (c) Alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of using alternative treatments, and the treatment preferred by the independent auditors;
- (d) The independent auditors' judgments about the quality and appropriateness of the Company's accounting principles applied in its financial reporting;
- (e) All discussions between the independent auditors' team and the firm's national office;
- (f) Any unadjusted differences identified by the independent auditors that were not booked by management in the financial statements;
- (g) Any other major issues regarding accounting or auditing principles and practices;
- (h) The adequacy of internal controls that could significantly affect the Company's financial statements;
- (i) The Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operation";
- (j) The effect of regulatory and accounting initiatives on the financial statements;

- (k) The effect of pro-forma figures on the financial statements;
- (l) Any financial information or earnings guidance provided to analysts or rating agencies; and
- (m) Any correspondence with regulators or governmental agencies, and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.

#### D. ESTABLISH PROCEDURES TO ADDRESS COMPLAINTS

In accordance with Section 301 of the Act, the Committee shall establish a process that allows employees to submit, in a confidential and anonymous manner, concerns they may have regarding questionable accounting or auditing practices. The Committee will also establish and implement procedures for the receipt, retention and treatment of concerns received regarding accounting, internal controls or auditing matters.

#### E. REVIEW RELATED PARTY TRANSACTIONS

The Committee shall review all related party transactions for potential conflict of interest situations on an ongoing basis. The Committee must approve all such transactions. Related party transactions are those that are required to be disclosed by SEC Regulation S-K Item 404.

#### F. PREPARE PROXY REPORT

The Committee shall produce an annual report for inclusion in the Company's annual proxy statement in compliance with applicable Securities and Exchange Commission rules and regulations and relevant NASDAQ guidance.

#### G. REVIEW LEGAL COMPLIANCE

On at least an annual basis, the Committee shall review with the Company's counsel any legal matters that could have a significant impact on the Company's financial statements, the Company's compliance with applicable laws and regulations, and any inquiries received from regulators or governmental agencies.

#### H. SELF EVALUATION

The Committee shall conduct an annual performance evaluation of itself.

#### I. ADDITIONAL RESPONSIBILITIES

In addition to the powers and responsibilities expressly delegated to the Committee in this Charter, the Committee may exercise any other powers and carry out any other responsibilities delegated to it by the Board from time to time.

## **V. ACCESS TO ADVISORS**

To the extent that it deems necessary or appropriate, the Committee shall have the authority to retain independent legal, accounting or other advisors at the expense of the Company.

## Oregon Law: ORS 60.357

**60.357 General standards for directors.** (1) A director shall discharge the duties of a director, including the duties as a member of a committee, in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances and in a manner the director reasonably believes to be in the best interests of the corporation.

(2) In discharging the duties of a director, a director is entitled to rely on information, opinions, reports or statements including financial statements and other financial data, if prepared or presented by:

(a) One or more officers or employees of the corporation whom the director reasonably believes to be reliable and competent in the matters presented;

(b) Legal counsel, public accountants or other persons as to matters the director reasonably believes are within the person's professional or expert competence; or

(c) A committee of the board of directors of which the director is not a member if the director reasonably believes the committee merits confidence.

(3) A director is not acting in good faith if the director has knowledge concerning the matter in question that makes reliance otherwise permitted by subsection (2) of this section unwarranted.

(4) A director is not liable for any action taken as a director, or any failure to take any action, if the director performed the duties of the director's office in compliance with this section.