



## Pixelworks Reports First Quarter 2002 Financial Results

April 23, 2002

TUALATIN, Ore., Apr 23, 2002 (BUSINESS WIRE) -- Pixelworks, Inc. (Nasdaq:PXLW):

Conference Call at 2 p.m. PDT, April 23, 2002 -- Pixelworks will host a conference call at 2 p.m. PDT, April 23, 2002, which can be accessed at 719/457-2605 using pass code 693107. The conference call will also be available through a Web broadcast that can be accessed by visiting the Investor Relations section at [www.pixelworks.com](http://www.pixelworks.com). A replay will be available by telephone through April 25, 2002, at 719/457-0820 using pass code 693107. A replay of the Web broadcast will be available through May 7, 2002.

Pixelworks, Inc. (Nasdaq:PXLW), a leading provider of system-on-a-chip ICs for the advanced display market, today announced financial results for the first quarter ended March 31, 2002.

Revenue for the first quarter of 2002 was \$22.0 million, a three percent increase over revenue of \$21.3 million in the first quarter of 2001 and a three percent decrease from \$22.7 million in the fourth quarter of 2001.

Net loss in accordance with generally accepted accounting principles (GAAP) in the first quarter was (\$3.9) million, or (\$0.09) per diluted share compared to a net loss of (\$34.1) million, or (\$0.87) per diluted share, in the first quarter of 2001 and a net loss of (\$2.0) million, or (\$0.05) per diluted share, in the fourth quarter of 2001.

Pro forma net income(A) for the first quarter of 2002 was \$1.4 million, or \$0.03 per diluted share compared to pro forma net income of \$3.0 million, or \$0.07 per diluted share in the first quarter of 2001 and pro forma net income of \$4.0 million, or \$0.09 per diluted share in the fourth quarter of 2001. Pro forma net income excludes non-cash charges for amortization of acquired developed technology, amortization of goodwill & assembled workforce, in-process R&D expense, and amortization of deferred stock compensation. A detailed reconciliation between pro forma and GAAP net income (loss) is included in the attached financial statements.

"Pixelworks has kicked off 2002 with a strong start. We turned in solid financial results. We reached a major milestone by shipping more than one million chips in a quarter. We gained ground in the advanced television market with the acquisition of nDSP and customer adoption of our new line of video processing chip-sets has been outstanding," said Allen Alley, President, CEO, and Chairman of Pixelworks. "Looking forward, I believe we're positioned for solid growth in the second quarter. Bookings in the first quarter were up 47 percent sequentially and backlog entering the second quarter was up 30 percent compared to the first quarter," Alley added.

### Business Outlook

The following statements are based on current expectations. These statements are forward-looking, subject to risks and uncertainties, and actual results may differ materially. These statements do not include the potential impact of any investments outside the ordinary course of business, or mergers or acquisitions that may be completed after March 31, 2002. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. The inclusion of any statement in this release does not constitute a suggestion by the company or any other person that the events or circumstances described in such statements are material. The company does not undertake to publicly update or revise these forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied in this release will not be realized.

Continuing uncertainty in global economic conditions makes it particularly difficult to predict product demand and other related matters.

- The company estimates second quarter 2002 revenue will increase 10 to 15 percent over first quarter 2002 revenue of \$22.0 million. The company expects sequential quarterly rates of growth to increase in the third and fourth quarters with revenue for the year of \$120 to \$125 million, representing growth of between 32 and 38 percent over 2001 revenue of \$90.8 million. Revenue is highly dependent on a number of factors including, but not limited to, general economic conditions, timely new product introductions, the company's ability to secure additional design wins with customers, growth rates in the flat panel monitor, multimedia projector, and advanced television markets, and increased supply of products from the company's third-party foundries.
- The company expects gross profit margins in the second quarter of 2002 to be 49 to 51 percent. The company expects gross

profit margins to be 46 to 48 percent during the second half of the year. Gross profit margins may be higher or lower than expected due to many factors including, but not limited to, competitive pricing actions, changes in estimated product costs, revenue levels, and changes in estimated product mix.

- The company expects combined operating expenses for R&D and SG&A of approximately \$10.8 to \$11.2 million in the second quarter of 2002, and \$44 to \$46 million for the full year.
- The company expects non-cash charges related to the amortization of deferred stock compensation to be approximately \$1.1 million in each of the remaining quarters of 2002.
- The company expects interest income of approximately \$625,000 in each of the remaining quarters of 2002. This estimate is dependent on no material change to average cash balances and interest rates from those at March 31, 2002.
- The company expects the tax rate for the remaining quarters of 2002 to be approximately 20 percent of pro forma pretax income(A).

About Pixelworks, Inc.

Pixelworks, headquartered in Tualatin, Oregon, is a leading provider of system-on-a-chip ICs for the advanced display market. Pixelworks' solutions process and optimize video, computer graphics and Web information for display on a wide variety of devices used in business and consumer markets. Pixelworks ImageProcessor Architecture powers the world's most highly regarded flat panel display products, including monitors and projectors marketed by Compaq, Dell, NEC-Mitsubishi, Samsung, SANYO, Sony and ViewSonic. For more information, please visit the company's Web site at [www.pixelworks.com](http://www.pixelworks.com).

Pixelworks is a trademark of Pixelworks, Inc. All other trademarks and registration marks are the property of their respective corporations.

(A) Pro forma net income (loss) represents net income (loss) excluding non-cash expenses for the amortization of acquired developed technology, amortization of goodwill and assembled workforce, in-process research and development expense, and amortization of deferred stock compensation. Net Income (loss) excluding these expenses differs from net income (loss) according to generally accepted accounting principles.

#### Safe Harbor Statement

The statements by Allen Alley and the statements in the business outlook above are forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995. Such statements are based on current expectations, estimates and projections about the company's business. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual results could vary materially from the description contained herein due to many factors including those described above and the following: business and economic conditions, changes in growth in the flat panel monitor, multimedia projector, and advanced television industries, changes in customer ordering patterns, competitive factors, such as rival chip architectures, pricing pressures, insufficient, excess or obsolete inventory and variations in inventory valuation, continued success in technological advances, shortages of manufacturing capacity from our third-party foundries, litigation involving antitrust and intellectual property, the non-acceptance of the combined technologies by leading manufacturers, and other risk factors listed from time to time in the company's Securities and Exchange Commission filings. In addition, such statements are subject to the risks inherent in investments in and acquisitions of technologies and businesses, including the timing and successful completion of technology and product development through volume production, integration issues, unanticipated costs and expenditures, changing relationships with customers, suppliers and strategic partners, potential contractual, intellectual property or employment issues, accounting treatment and charges, and the risks that the investment or acquisition cannot be completed successfully or that anticipated benefits are not realized. The forward-looking statements contained in this press release speak only as of the date on which they are made, and the company does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this news release. If the company does update one or more forward-looking statements, investors and others should not conclude that the company will make additional updates with respect thereto or with respect to other forward-looking statements.

PIXELWORKS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except share and per share data)

	Three Months Ended	
	March 31,	
	2002	2001
	-----	-----
Revenue	\$ 22,005	\$ 21,344
Cost of revenue (1)	10,538	12,073
	-----	-----

Gross profit	11,467	9,271
Operating expenses:		
Research and development	5,452	4,224
Selling, general and administrative	5,188	3,495
Amortization of goodwill & assembled workforce	--	2,906
In-process R&D expense	4,200	32,400
Amortization of deferred stock compensation	1,027	1,794
-----	-----	-----
Total operating expenses	15,867	44,819
-----	-----	-----
Loss from operations	(4,400)	(35,548)
-----	-----	-----
Interest income	675	1,462
Interest expense	(30)	--
-----	-----	-----
Interest income, net	645	1,462
-----	-----	-----
Loss before income tax provision	(3,755)	(34,086)
-----	-----	-----
Income tax provision	151	--
-----	-----	-----
Net loss	\$ (3,906)	\$ (34,086)
=====	=====	=====
Basic and diluted net loss per share	\$ (0.09)	\$ (0.87)
=====	=====	=====
Weighted average shares-basic and diluted	42,419,941	39,324,324
=====	=====	=====
Proforma net income(2)	\$ 1,409	\$ 3,014
=====	=====	=====
Basic pro forma net income per share	\$ 0.03	\$ 0.08
=====	=====	=====
Diluted pro forma net income per share	\$ 0.03	\$ 0.07
=====	=====	=====
Weighted average shares-basic	42,419,941	39,324,324
=====	=====	=====
Weighted average shares-diluted	44,360,167	41,587,772
=====	=====	=====

(1) Includes amortization of acquired developed technology of \$88 and \$0 for the three months ended March 31, 2002 and 2001, respectively.

(2) Proforma net income excludes amortization of acquired developed technology, amortization of goodwill & assembled workforce, in-process R&D expense, and amortization of deferred stock compensation.

#### RECONCILIATION OF GAAP NET LOSS TO PRO FORMA NET INCOME

	Three Months Ended	
	March 31,	
	2002	2001
-----	-----	-----
GAAP net loss	\$ (3,906)	\$(34,086)
Non-cash expenses:		
Amortization of acquired developed technology (1)	88	--
Amortization of goodwill & assembled workforce (2)	--	2,906
In-process R&D expense (3)	4,200	32,400
Amortization of deferred stock compensation (4)	1,027	1,794

Pro forma net income	-----	-----	
		\$ 1,409	\$ 3,014
	=====	=====	

- (1) Non-cash expenses for amortization of value assigned to an acquired company's developed and other core technology at time of acquisition.
- (2) Non-cash expenses for amortization of intangible assets recorded in connection with an acquisition. FAS 142 eliminated the amortization of goodwill & assembled workforce beginning in the quarter ended March 31, 2002.
- (3) A one-time, non-cash expense for the value assigned to acquired companies existing research and development projects.
- (4) Non-cash expenses associated with certain stock options issued to employees prior to the company's Initial Public Offering and to employees of acquired companies.

PIXELWORKS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	March 31, December 31,	
	2002	2001
ASSETS		
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 44,077	\$ 53,288
Short-term marketable securities	47,461	40,517
Accounts receivable, net	7,523	6,378
Inventories, net	7,752	4,176
Prepaid expenses and other current assets	3,159	3,667
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Total current assets	109,972	108,026
Long-term marketable securities	8,997	7,450
Property and equipment, net	6,194	5,463
Goodwill and assembled workforce, net	83,533	69,162
Other assets, net	17,062	12,738
	-----	-----
Total assets	\$225,758	\$202,839
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 6,909	\$ 2,391
Accrued liabilities and current portion of long-term debt	7,257	6,815
	-----	-----
Total current liabilities	14,166	9,206
Long-term debt	47	--
Shareholders' equity	211,545	193,633
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Total liabilities and shareholder's equity	\$225,758	\$202,839
	=====	=====

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