



Pixelworks Reports Second Quarter 2002 Financial Results; Record Revenue Up 12 Percent Sequentially and 8 Percent Year-Over-Year

July 16, 2002

TUALATIN, Ore., Jul 16, 2002 (BUSINESS WIRE) -- Pixelworks, Inc. (Nasdaq:PXLW), a leading provider of system-on-a-chip ICs for the advanced display market, today announced financial results for the second quarter ended June 30, 2002.

Revenue for the second quarter of 2002 was \$24.6 million, an eight percent increase over revenue of \$22.7 million in the second quarter of 2001 and a 12 percent increase from \$22.0 million in the first quarter of 2002.

Net income in accordance with generally accepted accounting principles in the second quarter was \$1.4 million, or \$0.03 per diluted share compared to a net loss of (\$3.4) million, or (\$0.08) per diluted share, in the second quarter of 2001 and a net loss of (\$3.9) million, or (\$0.09) per diluted share, in the first quarter of 2002.

Pro forma net income for the second quarter of 2002 was \$1.7 million, or \$0.04 per diluted share compared to pro forma net income of \$3.5 million, or \$0.08 per diluted share in the second quarter of 2001 and pro forma net income of \$1.4 million, or \$0.03 per diluted share in the first quarter of 2002. Pro forma net income (loss), which differs from net income (loss) according to generally accepted accounting principles, excludes non-cash charges for amortization of developed technology, amortization of goodwill and 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.

"We were pleased to have another solid quarter, especially when considering the difficult and unpredictable economic environment. We achieved record revenues driven by record unit shipments into all three of our primary end markets," said Allen Alley, president, CEO, and chairman of Pixelworks.

"These results validate our strategy of developing a balanced product portfolio addressing multiple markets within the advanced display industry," Alley added.

Conference Call at 2 p.m. PDT, July 16, 2002 -- Pixelworks will host a conference call at 2 p.m. PDT, July 16, 2002, which can be accessed at 719/457-2698 using pass code 715022. 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. A replay will be available by telephone through July 18, 2002, at 719/457-0820 using pass code 715022. A replay of the Web broadcast will be available through July 30, 2002.

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 June 30, 2002, other than some effects of the anticipated acquisition of Jaldi Semiconductor that is expected to close in the third quarter of 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.

Due to very uncertain and unpredictable economic conditions, it is particularly difficult to predict product demand and other related matters.

The business outlook includes certain effects of the anticipated acquisition of Jaldi Semiconductor, which is expected to close in the third quarter of 2002. It should be noted, however, due to the uncertainty as to the actual amounts involved, this business outlook does not include all of the effects of the Jaldi Semiconductor acquisition including other anticipated, large, non-cash expenses related to the Jaldi Semiconductor acquisition that the company is expected to incur as required under generally accepted accounting principles pertaining to the purchase method of accounting for acquisitions. These non-cash expenses include, but may not be limited to, the write-off of in-process research and development charges related to the acquisition and amortization of stock compensation expenses.

- The company estimates third quarter 2002 revenue will be \$25.5 to \$27.5 million. The company expects revenue for the fourth quarter to increase from 10 to 20 percent over the third quarter of 2002. 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, levels of inventory at distributors and customers, and increased supply of products from the company's third party foundries.
- The company expects gross profit margins to be 46 to 48 percent in the third quarter of 2002 and 45 to 47 percent in the fourth quarter of 2002. 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 \$11.5 to \$12.0 million in the third quarter of 2002 and \$12.5 to \$13.0 million in the fourth quarter of 2002.
- The company expects non-cash charges related to the amortization of deferred stock compensation to be approximately \$625,000 per quarter for the remainder of 2002.
- The company expects interest income of approximately \$600,000 per quarter for the remainder of 2002. This estimate is dependent on no material change to average cash balances and interest rates from those at June 30, 2002.
- The company expects the tax rate for the remainder of 2002 to be approximately 20 percent of pro forma income before income taxes. Pro forma income (loss) before income taxes represents income (loss) before income taxes excluding non-cash expenses for the amortization of developed technology, amortization of goodwill and assembled workforce, in-process research and development expense, and amortization of deferred stock compensation. Pro forma income (loss) before income taxes excluding these expenses differs from income (loss) before income taxes according to generally accepted accounting principles.

About Pixelworks, Inc.

Pixelworks, headquartered in Tualatin, Ore., 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 advanced display products, including monitors, advanced televisions and projectors marketed by Compaq, Dell, HP, NEC-Mitsubishi, Samsung, SANYO, Sony and ViewSonic. For more information, please visit the company's Web site at www.pixelworks.com.

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

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 STATEMENT OF OPERATIONS

(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2002	2001	2002	2001
Revenue	\$ 24,644	\$ 22,732	\$ 46,649	\$ 44,075
Cost of revenue (1)	12,261	11,988	22,799	24,060
Gross profit	12,383	10,744	23,850	20,015
Operating expenses:				
Research and development	5,275	4,310	10,727	8,534
Selling, general and administrative	5,839	4,112	11,027	7,607
Amortization of goodwill & assembled workforce	-	4,359	-	7,265
In-process R&D expense	-	-	4,200	32,400

Amortization of deferred stock compensation	175	2,539	1,202	4,333

Total operating expenses	11,289	15,320	27,156	60,139

Income (loss) from operations	1,094	(4,576)	(3,306)	(40,124)

Interest income	617	1,128	1,292	2,590
Interest expense	(23)	-	(54)	-

Interest income and other expense, net	594	1,128	1,238	2,590

Income (loss) before income taxes	1,688	(3,448)	(2,068)	(37,534)

Income tax provision	327	-	478	-

Net income (loss)	\$ 1,361	\$ (3,448)	\$ (2,546)	\$ (37,534)
=====				
Basic net income (loss) per share	\$ 0.03	\$ (0.08)	\$ (0.06)	\$ (0.94)
=====				
Diluted net income (loss) per share	\$ 0.03	\$ (0.08)	\$ (0.06)	\$ (0.94)
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Weighted average shares-basic	42,804,499	40,956,346	42,613,282	40,108,316
=====				
Weighted average shares-diluted	44,298,107	40,956,346	42,613,282	40,108,316
=====				
Proforma net income(2)	\$ 1,668	\$ 3,450	\$ 3,076	\$ 6,464
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Basic proforma net income per share	\$ 0.04	\$ 0.08	\$ 0.07	\$ 0.16
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Diluted proforma net income per share	\$ 0.04	\$ 0.08	\$ 0.07	\$ 0.15
=====				
Weighted average shares-basic	42,804,499	40,956,346	42,613,282	40,108,316
=====				

Weighted average
 shares-diluted 44,298,107 43,547,595 44,349,211 42,581,284

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- (1) Includes amortization of purchased developed technology of \$132 and \$220 for the three and six months ended June 30, 2002, respectively.
- (2) Proforma net income excludes amortization of purchased developed technology, amortization of goodwill & assembled workforce, in-process R&D expense, and amortization of deferred stock compensation.

RECONCILIATION OF GAAP NET INCOME (LOSS) TO PRO FORMA NET INCOME

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2002	2001	2002	2001
GAAP net income (loss)	\$ 1,361	\$ (3,448)	\$ (2,546)	\$ (37,534)
Non-cash expenses:				
Amortization of developed technology (1)	132	-	220	-
Amortization of goodwill & assembled workforce (2)	-	4,359	-	7,265
In-process R&D expense (3)	-	-	4,200	32,400
Amortization of deferred stock compensation (4)	175	2,539	1,202	4,333
Pro forma net income	\$ 1,668	\$ 3,450	\$ 3,076	\$ 6,464

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- (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)

	June 30,		Dec. 31,	
	2002		2001	
ASSETS				

	(Unaudited)			
CURRENT ASSETS				
Cash and cash equivalents		\$ 53,360		\$ 53,288
Short-term marketable securities		31,832		40,517
Accounts receivable, net		8,196		6,378
Inventories, net		5,054		4,176
Prepaid expenses and other current assets		4,280		3,667

Total current assets		102,722		108,026
Long-term marketable securities		10,990		7,450
Property and equipment, net		7,215		5,463
Goodwill and assembled workforce		83,533		69,162
Other assets, net		18,016		12,738

Total assets	\$ 222,476	\$ 202,839
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 2,755	\$ 2,391
Accrued liabilities and current portion of long-term debt	6,511	6,815
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Total current liabilities	9,266	9,206
Shareholders' equity	213,210	193,633
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Total liabilities and shareholders' equity	\$ 222,476	\$ 202,839
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