



## Pixelworks Reports Third Quarter 2002 Financial Results; Record Revenue Up 9 Percent Sequentially and 12 Percent Year-Over-Year

October 17, 2002

TUALATIN, Ore., Oct 17, 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 third quarter ended Sept. 30, 2002.

Revenue for the third quarter of 2002 was \$26.9 million, a 12 percent increase over revenue of \$24.1 million in the third quarter of 2001 and 9 percent increase from \$24.6 million in the second quarter of 2002.

Net loss in accordance with generally accepted accounting principles in the third quarter was (\$5.1) million, or (\$0.12) per share compared to a net loss of (\$3.0) million, or (\$0.07) per share, in the third quarter of 2001 and net income of \$1.4 million, or \$0.03 per diluted share, in the second quarter of 2002. The net loss in the third quarter of 2002 included a one-time \$6.3 million charge for in-process R&D expense resulting from the acquisition of Jaldi Semiconductor, which was completed in the third quarter.

Pro forma net income for the third quarter was \$2.0 million, or \$0.04 per diluted share compared to pro forma net income of \$3.9 million, or \$0.09 per diluted share in the third quarter of 2001 and pro forma net income of \$1.7 million, or \$0.04 per diluted share in the second quarter of 2002. Pro forma net income (loss), which differs from net income (loss) in accordance with generally accepted accounting principles (GAAP), excludes non-cash charges for amortization of purchased 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 are pleased to report another quarter of record revenue and bookings despite a very difficult economic environment. In particular, we had another quarter of very strong revenue growth in advanced television business, which grew 32 percent sequentially. This rapid growth has resulted in advanced TV revenue going from under five percent of total revenue just a few quarters ago to 20 percent of revenue in the third quarter," said Allen Alley, president, CEO, and chairman of Pixelworks.

Conference Call at 2 p.m. PDT, Oct. 17, 2002 -- Pixelworks will host a conference call at 2 p.m. PDT, Oct. 17, 2002, which can be accessed at 719/457-2664 using pass code 400992. The conference call will also be available through a Web broadcast that can be accessed at <http://www.firstcallevts.com/service/ajwz367243157gf12.html> or by visiting the Investor Relations section at [www.pixelworks.com](http://www.pixelworks.com). A replay will be available by telephone through Oct. 19, 2002, at 719/457-0820 using pass code 400992. A replay of the Web broadcast will be available through Oct. 31, 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 Sept. 30, 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 company estimates fourth quarter 2002 revenue will be \$27.5 to \$29.5 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, 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 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 \$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 \$875,000 in the fourth quarter of 2002.
- The company expects interest income of approximately \$525,000 in the fourth quarter of 2002. This estimate is dependent on no material change to average cash balances and interest rates from those at September 30, 2002.
- The company expects the tax rate in the fourth quarter of 2002 to be 10 to 15 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 in accordance with 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](http://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

(In thousands, except share and per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2002	2001	2002	2001
Revenue	\$26,862	\$24,074	\$73,512	\$68,149
Cost of revenue (1)	13,647	12,607	36,447	36,667
Gross profit	13,215	11,467	37,065	31,482
Operating expenses:				
Research and development	6,463	4,379	17,190	12,913
Selling, general and administrative	5,232	4,226	16,259	11,833
Amortization of goodwill & assembled workforce	-	4,359	-	11,623
In-process R&D expense	6,300	-	10,500	32,400
Amortization of deferred stock compensation	676	2,539	1,878	6,873
Total operating expenses	18,671	15,503	45,827	75,642
Loss from				

operations	(5,456)	(4,036)	(8,762)	(44,160)
Interest income	559	997	1,850	3,587
Interest expense	(17)	-	(70)	-
Interest income and other expense, net	542	997	1,780	3,587
Loss before income taxes	(4,914)	(3,039)	(6,982)	(40,573)
Income tax provision	229	-	707	-
Net loss	\$(5,143)	\$(3,039)	\$(7,689)	\$(40,573)
Basic net loss per share	\$(0.12)	\$(0.07)	\$(0.18)	\$(1.00)
Diluted net loss per share	\$(0.12)	\$(0.07)	\$(0.18)	\$(1.00)
Weighted average shares-basic	43,491,996	41,128,835	42,909,408	40,453,591
Weighted average shares-diluted	43,491,996	41,128,835	42,909,408	40,453,591
Proforma net income(2)	\$1,965	\$3,859	\$5,041	\$10,323
Basic proforma net income per share	\$0.05	\$0.09	\$0.12	\$0.26
Diluted proforma net income per share	\$0.04	\$0.09	\$0.11	\$0.24
Weighted average shares-basic	43,491,996	41,128,835	42,909,408	40,453,591
Weighted average shares-diluted	44,713,961	43,490,151	44,394,496	42,941,237

(1) Includes amortization of purchased developed technology of \$132 and \$352 for the three and nine months ended Sept. 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 LOSS TO PRO FORMA NET INCOME

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2002	2001	2002	2001
GAAP net loss	\$(5,143)	\$(3,039)	\$(7,689)	\$(40,573)

Non-cash expenses:				
Amortization of developed technology (1)	132	-	352	-
Amortization of goodwill & assembled workforce (2)	-	4,359	-	11,623
In-process R&D expense (3)	6,300	-	10,500	32,400
Amortization of deferred stock compensation (4)	676	2,539	1,878	6,873
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Pro forma net income	\$1,965	\$3,859	\$5,041	\$10,323
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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)

Sept. 30, Dec. 31,  
2002 2001

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ASSETS	(unaudited)		
CURRENT ASSETS			
Cash and cash equivalents	\$68,062	\$53,288	
Short-term marketable securities	23,042	40,517	
Accounts receivable, net	9,947	6,378	
Inventories, net	4,032	4,176	
Prepaid expenses and other current assets	3,815	3,667	
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Total current assets	108,898	108,026	
Long-term marketable securities	9,482	7,450	
Property and equipment, net	8,712	5,463	
Goodwill and assembled workforce	100,284	69,162	
Other assets, net	9,092	12,738	
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Total assets	\$236,468	\$202,839	
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LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	\$4,237	\$2,391	
Accrued liabilities and current portion of long-term debt	6,732	6,815	
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Total current liabilities	10,969	9,206	
Shareholders' equity	225,499	193,633	
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Total liabilities and shareholders' equity	\$236,468	\$202,839	
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