



Pixelworks Reports First Quarter 2005 Financial Results

April 28, 2005

TUALATIN, Ore.--(BUSINESS WIRE)--April 28, 2005--Pixelworks, Inc. (Nasdaq:PXLW):

-- Revenue of \$40.3 million in the first quarter decreased 11% from \$45.3 million in the first quarter of 2004, and increased 5% over \$38.5 million in the previous quarter.

-- Record advanced television revenue increased 13% sequentially and 36% year-over-year.

-- GAAP net income in the first quarter was \$836,000, or \$0.02 per diluted share, pro forma(a) net income was \$1.1 million, or \$0.02 per diluted share.

(a) Pro forma gross profit, income before income taxes, and net income, which differs from gross profit, income before income taxes, and net income in accordance with accounting principles generally accepted in the United States of America (GAAP), excludes non-cash expenses for amortization of purchased developed technology, stock-based compensation and amortization of assembled workforce. A schedule reconciling these amounts for the three months ended March 31, 2005 and 2004 is included in this news release. Pixelworks' management believes the presentation of these non-GAAP financial measures provides useful information to investors regarding Pixelworks' results of operations as these non-GAAP financial measures allow investors to better evaluate ongoing business performance. Pixelworks' management also uses these non-GAAP financial measures internally to monitor performance of the business. Pixelworks, however, cautions investors to consider these non-GAAP financial measures in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP.

Pixelworks, Inc. (Nasdaq:PXLW), a leading provider of system-on-chip ICs for the advanced display industry, today announced financial results for the first quarter ended March 31, 2005.

Revenue for the first quarter of 2005 was \$40.3 million, an 11 percent decrease from revenue of \$45.3 million in the first quarter of 2004 and a 5 percent increase over revenue of \$38.5 million in the fourth quarter of 2004.

Net income in accordance with generally accepted accounting principles (GAAP) in the first quarter of 2005 was \$836,000, or \$0.02 per diluted share, compared with net income of \$6.6 million or \$0.14 per diluted share, in the first quarter of 2004 and net income of \$4.0 million, or \$0.08 per diluted share, in the fourth quarter of 2004. GAAP results include non-cash expenses for stock-based compensation, amortization of assembled workforce, and amortization of acquired developed technology which, together, totaled approximately \$269,000 in the first quarter of 2005 and \$417,000 in the first quarter of 2004 (excluded for pro forma reporting purposes).

Pro forma net income in the first quarter of 2005 was \$1.1 million, or \$0.02 per diluted share, which decreased from pro forma net income of \$7.0 million, or \$0.14 per diluted share in the first quarter of 2004 and pro forma net income of \$4.3 million, or \$0.09 per diluted share, in the fourth quarter of 2004.

"We were pleased that first quarter revenues came in above our January outlook as better than expected growth in advanced television and LCD monitor business more than offset a decline in projector revenues that was greater than we had forecasted," said Allen Alley, President, CEO and Chairman of Pixelworks. "We continue to believe the advanced television business will continue to grow as a percentage of our revenues and holds great promise for future growth."

Conference Call at 2 p.m. PDT, April 28, 2005 -- Pixelworks will host a conference call at 2 p.m. PDT, April 28, 2005, which can be accessed at 719-457-2699 and using pass code 5425461. 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 of the conference call will be available through May 1, 2005, and can be accessed by calling 719-457-0820 using pass code 5425461. A replay of the Web broadcast will be available through May 28, 2005.

Business Outlook for Second Quarter 2005

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, 2005. 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.

The Company estimates net income per share in the second quarter of 2005 will be \$0.00 to \$0.02 on a GAAP basis and \$0.01 to \$0.03 on a pro forma basis, based on the following estimates:

-- Revenue of \$40.0 to \$43.0 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.

-- GAAP gross profit margin of 41.0 to 43.0 percent. Pro forma gross profit margin, which excludes an estimated \$132,000 in non-cash expense for the amortization of acquired developed technology, of 41.3 to 43.3 percent. Gross profit margin 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.

-- R&D and SG&A expenses, combined, of \$17.0 to \$17.5 million.

-- Non-cash expenses for stock-based compensation and amortization of assembled workforce of approximately \$125,000 (excluded for pro forma reporting purposes).

-- Interest income of approximately \$900,000.

-- Effective tax rate of 22 to 26 percent of net income before income taxes on a pro forma basis and 24 to 28 percent of net income before taxes on a GAAP basis. Both the pro forma and GAAP effective tax rates are subject to significant variation on an ongoing basis due to changes in the level of income before taxes, research and development tax credits, and other factors.

About Pixelworks, Inc.

Pixelworks, headquartered in Tualatin, Oregon, is a leading provider of system-on-chip ICs for the advanced display industry. Pixelworks' solutions provide the intelligence for advanced televisions, multimedia projectors and flat panel monitors by processing and optimizing video and computer graphics signals to produce high quality images. Many of the world's leading manufacturers of consumer electronics and computer display products utilize our technology to enhance image quality and ease of use of their products.

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 for Second Quarter 2005 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. 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 (GAAP BASIS)

(In thousands, except per share data)

(Unaudited)

| | Three Months Ended | |
|--|--------------------|----------|
| | March 31, | |
| | 2005 | 2004 |
| Revenue | \$40,261 | \$45,270 |
| Cost of revenue (1) | 23,343 | 21,883 |
| Gross profit | 16,918 | 23,387 |
| Operating expenses: | | |
| Research and development | 9,442 | 7,704 |
| Selling, general and administrative | 7,068 | 5,474 |
| Stock-based compensation and amortization of assembled workforce | 137 | 285 |
| Total operating expenses | 16,647 | 13,463 |
| Income from operations | 271 | 9,924 |
| Interest income | 1,715 | 236 |
| Interest expense | (657) | (1) |
| Amortization of debt issuance costs | (177) | - |

| | | |
|--------------------------------------|---------|----------|
| Interest income, net | 881 | 235 |
| Income before income taxes | 1,152 | 10,159 |
| Provision for income taxes | 316 | 3,606 |
| Net income | \$ 836 | \$ 6,553 |
| Net income per share: | | |
| Basic | \$ 0.02 | \$ 0.14 |
| Diluted | \$ 0.02 | \$ 0.14 |
| Weighted average shares outstanding: | | |
| Basic | 46,969 | 46,320 |
| Diluted | 47,887 | 48,141 |

(1) Includes amortization of acquired developed technology of \$132 for each of the three months ended March 31, 2005 and 2004.

PIXELWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (PRO FORMA BASIS)
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended | |
|--------------------------------------|--------------------|----------|
| | March 31, | |
| | 2005 | 2004 |
| Revenue | \$40,261 | \$45,270 |
| Cost of revenue | 23,211 | 21,751 |
| Pro forma gross profit | 17,050 | 23,519 |
| Operating expenses: | | |
| Research and development | 9,442 | 7,704 |
| Selling, general and administrative | 7,068 | 5,474 |
| Total operating expenses | 16,510 | 13,178 |
| Pro forma income from operations | 540 | 10,341 |
| Interest income | 1,715 | 236 |
| Interest expense | (657) | (1) |
| Amortization of debt issuance costs | (177) | - |
| Interest income, net | 881 | 235 |
| Pro forma income before income taxes | 1,421 | 10,576 |
| Provision for income taxes | 316 | 3,606 |
| Pro forma net income | \$ 1,105 | \$ 6,970 |
| Pro forma net income per share: | | |
| Basic | \$ 0.02 | \$ 0.15 |
| Diluted | \$ 0.02 | \$ 0.14 |
| Weighted average shares outstanding: | | |
| Basic | 46,969 | 46,320 |

Diluted 47,887 48,141
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The above pro forma financial statements are presented for informational purposes only. Our presentation of pro forma financial information excludes non-cash expenses resulting from acquisitions and the issuance of stock options, as well as unusual or infrequent expenses that are not directly attributable to our ongoing operations and are expected to be incurred over a limited period of time. Because of these exclusions, our presentation is not in accordance with U.S. generally accepted accounting principles (GAAP). Additionally, our presentation of pro forma financial information may not be consistent with that of other companies.

We believe that the exclusion of non-cash charges may help the investor better understand our liquidity position and the use of tangible resources in our operations, and the exclusion of unusual or infrequent items provides an alternative measure which may help the investor evaluate our underlying operating performance. Pro forma information is not, and should not be considered, a substitute for financial information prepared in accordance with GAAP.

PIXELWORKS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 RECONCILIATION OF GAAP TO PRO FORMA BASIS
 (In thousands, except per share data)
 (Unaudited)

| | Three Months Ended March 31, 2005 | | | Three Months Ended March 31, 2004 | | |
|--|--------------------------------------|-------------|----------|--------------------------------------|-------------|----------|
| | Pro GAAP | Adjustments | forma | Pro GAAP | Adjustments | forma |
| Revenue | \$40,261 | \$ - | \$40,261 | \$45,270 | \$ - | \$45,270 |
| Cost of revenue | 23,343 | (132) (1) | 23,211 | 21,883 | (132) (1) | 21,751 |
| Gross profit | 16,918 | 132 | 17,050 | 23,387 | 132 | 23,519 |
| Operating expenses: | | | | | | |
| Research and development | 9,442 | - | 9,442 | 7,704 | - | 7,704 |
| Selling, general and administrative | 7,068 | - | 7,068 | 5,474 | - | 5,474 |
| Stock-based compensation and amortization of assembled workforce | 137 | (137) (2) | - | 285 | (285) (2) | - |
| Total operating expenses | 16,647 | (137) | 16,510 | 13,463 | (285) | 13,178 |
| Income from | | | | | | |

| | | | | | | |
|-------------------------------------|-------|-------|---------|---------|-------|---------|
| operations | 271 | 269 | 540 | 9,924 | 417 | 10,341 |
| Interest income | 1,715 | - | 1,715 | 236 | - | 236 |
| Interest expense | (657) | - | (657) | (1) | - | (1) |
| Amortization of debt issuance costs | (177) | - | (177) | - | - | - |
| Interest income, net | 881 | - | 881 | 235 | - | 235 |
| Income before income taxes | 1,152 | 269 | 1,421 | 10,159 | 417 | 10,576 |
| Provision for income taxes | 316 | - | 316 | 3,606 | - | 3,606 |
| Net income | \$836 | \$269 | \$1,105 | \$6,553 | \$417 | \$6,970 |

| | | | | | | |
|-----------------------|--------|--------|--------|--------|--|--|
| Net income per share: | | | | | | |
| Basic | \$0.02 | \$0.02 | \$0.14 | \$0.15 | | |
| Diluted | \$0.02 | \$0.02 | \$0.14 | \$0.14 | | |

| | | | | | | |
|--------------------------------------|--------|--------|--------|--------|--|--|
| Weighted average shares outstanding: | | | | | | |
| Basic | 46,969 | 46,969 | 46,320 | 46,320 | | |
| Diluted | 47,887 | 47,887 | 48,141 | 48,141 | | |

- (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 associated with certain stock options issued to employees prior to the Company's Initial Public Offering and to employees of acquired companies. Also includes non-cash expense associated with amortization of the intangible assembled workforce asset recorded in connection with the Jaldi Semiconductor asset acquisition.

PIXELWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

March 31, Dec. 31,
2005 2004

ASSETS

| | | |
|---------------------------|-----------|-----------|
| Current assets: | | |
| Cash and cash equivalents | \$ 50,542 | \$ 32,585 |

| | | |
|---|---------|---------|
| Short-term marketable securities | 166,073 | 160,213 |
| Accounts receivable, net | 15,205 | 14,605 |
| Inventories, net | 13,580 | 18,575 |
| Prepaid expenses and other current assets | 5,468 | 4,856 |
| | ----- | ----- |
| Total current assets | 250,868 | 230,834 |

| | | |
|---------------------------------|-----------|-----------|
| Long-term marketable securities | 53,407 | 79,483 |
| Property and equipment, net | 12,243 | 12,444 |
| Other assets, net | 11,246 | 8,101 |
| Debt issuance costs, net | 4,310 | 4,483 |
| Deferred tax assets, net | 4,868 | 4,868 |
| Acquired intangible assets, net | 2,266 | 2,520 |
| Goodwill | 80,836 | 80,836 |
| | ----- | ----- |
| Total assets | \$420,044 | \$423,569 |
| | ===== | ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

| | | |
|--|----------|----------|
| Accounts payable | \$ 4,861 | \$ 5,946 |
| Accrued liabilities and current portion of long term-liabilities | 11,712 | 12,842 |
| Income taxes payable | 853 | 2,393 |
| | ----- | ----- |
| Total current liabilities | 17,426 | 21,181 |

| | | |
|-----------------------|---------|---------|
| Long-term liabilities | 297 | 365 |
| Long-term debt | 150,000 | 150,000 |
| | ----- | ----- |
| Total liabilities | 167,723 | 171,546 |

| | | |
|----------------------|---------|---------|
| Shareholders' equity | 252,321 | 252,023 |
| | ----- | ----- |

Total liabilities and shareholders' equity \$420,044 \$423,569

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SOURCE: Pixelworks, Inc.