



Pixelworks Reports Second Quarter 2013 Financial Results

August 6, 2013

SAN JOSE, Calif.--(BUSINESS WIRE)--Aug. 6, 2013-- Pixelworks, Inc. (NASDAQ: PXLW), a pioneer in innovative video and display processing technology, today announced financial results for the second quarter ended June 30, 2013.

Second quarter 2013 revenue was up 15.5% to \$9.6 million, compared to \$8.3 million reported in the prior quarter and \$15.5 million in the second quarter of 2012. The sequential increase in revenue was due to increased sales of chips for both Projectors and TVs. Revenue declined compared to the prior year quarter primarily as the result of lower licensing revenue during the second quarter.

On a GAAP basis, gross profit margin in the second quarter of 2013 was 48.4%, compared to 48.1% in the prior quarter and 49.3% in the second quarter of 2012. Second quarter 2013 GAAP operating expenses were \$9.3 million, compared to \$9.5 million in the previous quarter and \$8.5 million in the second quarter of 2012. For the second quarter of 2013, the Company recorded a GAAP net loss of \$4.9 million, or \$0.26 per share, compared to a GAAP net loss of \$5.4 million, or \$0.29 per share in the first quarter of 2013 and a GAAP net loss of \$1.1 million, or \$0.06 per share in the second quarter of 2012.

On a non-GAAP basis, gross profit margin in the second quarter of 2013 was 49.7%, compared to 49.7% in the prior quarter and 50.6% in the second quarter of 2012. Second quarter 2013 operating expenses on a non-GAAP basis were \$8.7 million, compared to \$8.8 million in the prior quarter and \$8.1 million in the second quarter of 2012. The year-over-year increase in operating expenses was primarily due to higher net investment in research and development during the second quarter. For the second quarter of 2013, the Company recorded a non-GAAP net loss of \$4.2 million, or \$0.23 per share, compared with a net loss of \$4.7 million, or \$0.25 per share, in the prior quarter and a net loss of \$0.3 million, or \$0.02 per share, in the second quarter of 2012.

"Growth resumed in the second quarter as order patterns improved, and we expect a significant increase in third quarter revenue driven by an improving environment, ramping of the PA168 advanced video processor and success in our licensing initiative," said Bruce Walicek, President and CEO of Pixelworks. "We are seeing outstanding demand for Pixelworks' Video Processing Technology, which is proving to be essential for delivering the highest video quality as resolution requirements increase across a growing number of displays."

The Company will discuss the details of its business outlook for the third quarter of 2013 during its conference call scheduled for today, August 6, 2013, at 2:00 p.m. Pacific Time.

Conference Call Information

Pixelworks will host a conference call today at 2:00 p.m. Pacific Time, which can be accessed by calling 866-700-0133 and using passcode 62804626. A Web broadcast of the call can be accessed by visiting the Company's investor page at www.pixelworks.com. For those unable to listen to the live Web broadcast, it will be archived for approximately 30 days. A replay of the conference call will also be available through Tuesday, August 13, 2013, and can be accessed by calling 888-286-8010 and using passcode 22926666.

About Pixelworks, Inc.

Pixelworks creates, develops and markets video display processing technology for digital video applications that demand the very highest quality images. At design centers around the world, Pixelworks engineers constantly push video performance to keep manufacturers of consumer electronics and professional displays worldwide on the leading edge. The company is headquartered in San Jose, CA.

For more information, please visit the Company's Web site at www.pixelworks.com.

Note: Pixelworks and the Pixelworks logo are registered trademarks of Pixelworks, Inc.

Non-GAAP Financial Measures

This earnings release makes reference to non-GAAP gross profit margins, non-GAAP operating expenses, non-GAAP net loss and non-GAAP net loss per share which excludes stock-based compensation expense and additional amortization of a non-cancelable prepaid royalty, which are required under GAAP. The press release also reconciles GAAP net loss and adjusted EBITDA which Pixelworks defines as GAAP net loss before interest expense and other, net, income tax provision, depreciation and amortization, as well as the specific items listed above. The Company believes these non-GAAP measures provide a meaningful perspective on the Company's core operating results and underlying cash flow dynamics, but cautions investors to consider these measures in addition to, not as a substitute for, its consolidated financial results as presented in accordance with GAAP. A reconciliation between GAAP and non-GAAP financial measures is included in this earnings release which is available in the investor relations section of the Company's website.

Safe Harbor Statement

This release contains statements, including, without limitation, the statements in Bruce Walicek's quote that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are forward-looking statements for purposes of this release, including any projections of revenue or other financial items or any statements regarding the plans and objectives of management for future operations. Such statements are based on

management's current expectations, estimates and projections about the Company's business. These statements are not guarantees of future performance and involve numerous risks, uncertainties and assumptions that are difficult to predict. Actual results could vary materially from those contained in forward looking statements due to many factors, including, without limitation: our ability to deliver new products in a timely fashion; our new product yield rates; changes in estimated product costs; product mix; supply of products from third-party foundries; failure or difficulty in achieving design wins; timely customer transition to new product designs; competitive factors, such as rival chip architectures, introduction or traction by competing designs, or pricing pressures; risks related to licensing our intellectual property; the success of our products in expanded markets; current global economic challenges; levels of inventory at distributors and customers; changes in the digital display and projection markets; changes in customer ordering patterns or lead times; seasonality in the consumer electronics market; our efforts to achieve profitability from operations; insufficient, excess or obsolete inventory and variations in inventory valuation; the outcome of any litigation related to our intellectual property rights; our limited financial resources and our ability to attract and retain key personnel. More information regarding potential factors that could affect the Company's financial results and could cause actual results to differ materially is included from time to time in the Company's Securities and Exchange Commission filings, including our Annual Report on Form 10-K for the year ended December 31, 2012 and subsequent SEC filings.

The forward-looking statements contained in this release speak as of the date of this release, and we do not undertake any obligation to update any such statements, whether as a result of new information, future events or otherwise.

PIXELWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended			Six Months Ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Revenue, net	\$ 9,554	\$ 8,271	\$ 15,524	\$ 17,825	\$ 29,854
Cost of revenue (1)	4,932	4,294	7,865	9,226	14,386
Gross profit	4,622	3,977	7,659	8,599	15,468
Operating expenses:					
Research and development (2)	6,010	5,884	4,715	11,894	9,808
Selling, general and administrative (3)	3,274	3,598	3,792	6,872	7,811
Total operating expenses	9,284	9,482	8,507	18,766	17,619
Loss from operations	(4,662)	(5,505)	(848)	(10,167)	(2,151)
Interest expense and other, net	(97)	(98)	(101)	(195)	(199)
Loss before income taxes	(4,759)	(5,603)	(949)	(10,362)	(2,350)
Provision (benefit) for income taxes	165	(198)	150	(33)	(613)
Net loss	\$ (4,924)	\$ (5,405)	\$ (1,099)	\$ (10,329)	\$ (1,737)
Net loss per share - basic and diluted	\$ (0.26)	\$ (0.29)	\$ (0.06)	\$ (0.56)	\$ (0.10)
Weighted average shares outstanding - basic and diluted	18,652	18,456	18,238	18,554	18,133

(1) Includes:

Additional amortization of non-cancelable prepaid royalty	\$ 98	\$ 91	\$ 156	\$ 189	\$ 288
Stock-based compensation	31	40	37	71	76
(2) Includes stock-based compensation	215	258	183	473	405
(3) Includes stock-based compensation	354	386	256	740	497

PIXELWORKS, INC.

RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL INFORMATION *

(In thousands, except per share data)

(Unaudited)

	Three Months Ended			Six Months Ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Reconciliation of GAAP and non-GAAP gross profit					

GAAP gross profit	\$ 4,622	\$ 3,977	\$ 7,659	\$ 8,599	\$ 15,468
Additional amortization of non-cancelable prepaid royalty	98	91	156	189	288
Stock-based compensation	31	40	37	71	76
Total reconciling items included in cost of revenue	129	131	193	260	364
Non-GAAP gross profit	\$ 4,751	\$ 4,108	\$ 7,852	\$ 8,859	\$ 15,832
Non-GAAP gross profit margin	49.7 %	49.7 %	50.6 %	49.7 %	53.0 %

Reconciliation of GAAP and non-GAAP operating expenses

GAAP operating expenses	\$ 9,284	\$ 9,482	\$ 8,507	\$ 18,766	\$ 17,619
Reconciling item included in research and development:					
Stock-based compensation	215	258	183	473	405
Reconciling item included in selling, general and administrative:					
Stock-based compensation	354	386	256	740	497
Total reconciling items included in operating expenses	569	644	439	1,213	902
Non-GAAP operating expenses	\$ 8,715	\$ 8,838	\$ 8,068	\$ 17,553	\$ 16,717

Reconciliation of GAAP and non-GAAP net loss

GAAP net loss	\$ (4,924)	\$ (5,405)	\$ (1,099)	\$ (10,329)	\$ (1,737)
Reconciling items included in cost of revenue	129	131	193	260	364
Reconciling items included in operating expenses	569	644	439	1,213	902
Tax effect of non-GAAP adjustments	18	(43)	136	(25)	(8)
Non-GAAP net loss	\$ (4,208)	\$ (4,673)	\$ (331)	\$ (8,881)	\$ (479)

Non-GAAP net loss per share - basic and diluted \$ (0.23) \$ (0.25) \$ (0.02) \$ (0.48) \$ (0.03)

Non-GAAP weighted average shares outstanding - basic and diluted 18,652 18,456 18,238 18,554 18,133

* Our non-GAAP gross profit, non-GAAP operating expenses, non-GAAP net loss and non-GAAP net loss per share differs from GAAP gross profit, GAAP operating expenses, GAAP net loss and GAAP net loss per share due to the exclusion of stock-based compensation expense and additional amortization of a non-cancelable prepaid royalty. Pixelworks' management believes the presentation of non-GAAP gross profit, non-GAAP operating expenses, non-GAAP net loss and non-GAAP net loss per share provides useful information to investors regarding Pixelworks' results of operations by allowing investors to better evaluate underlying cash flow dynamics. Pixelworks' management also uses each of these non-GAAP measures internally to better evaluate underlying cash flow dynamics. Pixelworks, however, cautions investors to consider these non-GAAP financial measures in addition to, and not as a substitute for, our GAAP financial measures.

PIXELWORKS, INC.

RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL INFORMATION *

(In thousands)

(Unaudited)

	Three Months Ended			Six Months Ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Reconciliation of GAAP net loss and adjusted EBITDA					
GAAP net loss	\$ (4,924)	\$ (5,405)	\$ (1,099)	\$ (10,329)	\$ (1,737)
Stock-based compensation	600	684	476	1,284	978
Additional amortization of non-cancelable prepaid royalty	98	91	156	189	288
Tax effect of non-GAAP adjustments	18	(43)	136	(25)	(8)
Non-GAAP net loss	\$ (4,208)	\$ (4,673)	\$ (331)	\$ (8,881)	\$ (479)
EBITDA adjustments:					
Depreciation and amortization	\$ 1,081	\$ 1,058	\$ 1,176	\$ 2,139	\$ 2,348
Interest expense and other, net	97	98	101	195	199
Non-GAAP provision (benefit) for income taxes	147	(155)	14	(8)	(605)
Adjusted EBITDA	\$ (2,883)	\$ (3,672)	\$ 960	\$ (6,555)	\$ 1,463

* Adjusted EBITDA differs from GAAP net loss due to the exclusion of stock-based compensation expense, additional amortization of a non-cancelable prepaid royalty, interest expense and other, net, income tax provision (benefit) and depreciation and amortization. Pixelworks' management believes the presentation of adjusted EBITDA provides useful information to investors regarding Pixelworks' results of operations by

allowing investors to better evaluate underlying cash flow dynamics and core operating results and are used by Pixelworks' management for these purposes. Pixelworks, however, cautions investors to consider these non-GAAP financial measures in addition to, and not as a substitute for, our GAAP financial measures.

PIXELWORKS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	June 30, December 31,	
	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,231	\$ 13,404
Accounts receivable, net	2,613	3,772
Inventories	1,909	2,702
Prepaid expenses and other current assets	1,516	1,727
Total current assets	17,269	21,605
Property and equipment, net	4,544	6,283
Other assets, net	1,562	1,653
Total assets	\$ 23,375	\$ 29,541
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,861	\$ 2,224
Accrued liabilities and current portion of long-term liabilities	9,065	8,666
Current portion of income taxes payable	183	207
Short-term line of credit	3,500	—
Total current liabilities	14,609	11,097
Long-term liabilities, net of current portion	912	1,445
Income taxes payable, net of current portion	2,071	2,331
Total liabilities	17,592	14,873
Shareholders' equity	5,783	14,668
Total liabilities and shareholders' equity	\$ 23,375	\$ 29,541

Source: Pixelworks, Inc.

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