



Pixelworks Reports First Quarter 2014 Financial Results

May 8, 2014

SAN JOSE, Calif.--(BUSINESS WIRE)--May 8, 2014-- Pixelworks, Inc. (NASDAQ: PXLW), an innovative provider of video display processing technology enabling the highest quality viewing experience for displays of all sizes, today announced financial results for the first quarter ended March 31, 2014.

Revenue for the first quarter 2014 was \$13.5 million, compared to \$15.0 million in the prior quarter and \$8.3 million in the first quarter of 2013. Revenue declined sequentially as a result of typical seasonality for sales of the Company's chip products.

On a GAAP basis, gross profit margin in the first quarter of 2014 was 59.0%, compared to 56.7% in the fourth quarter of 2013 and 48.1% in the first quarter of 2013. First quarter 2014 GAAP operating expenses were \$10.4 million, compared to \$8.3 million in the previous quarter and \$9.5 million in the first quarter of 2013. For the first quarter of 2014, the Company recorded a GAAP net loss of \$2.5 million, or \$0.11 per share, compared to a GAAP net loss of \$50,000, or \$0.00 per share, in the fourth quarter of 2013 and a GAAP net loss of \$5.4 million, or \$0.29 per share, in the first quarter of 2013.

On a non-GAAP basis, first quarter 2014 gross profit margin was 60.1%, compared to 57.8% in the fourth quarter of 2013 and 49.7% in the first quarter of 2013. First quarter gross margin improved primarily due to a more favorable mix. First quarter 2014 operating expenses on a non-GAAP basis were \$8.8 million, compared to \$7.1 million in the previous quarter and \$8.8 million in the first quarter of 2013. Operating expenses for the fourth quarter of 2013 included a reimbursement to research and development expense as the result of achieving the final payment milestone related to a previously announced customer co-development agreement.

For the first quarter of 2014, the Company recorded a non-GAAP net loss of \$0.8 million, or \$0.04 per share, compared to net income of \$1.3 million, or \$0.05 per diluted share, in the fourth quarter of 2013 and a net loss of \$4.7 million, or \$0.25 per share, in the first quarter of 2013. Adjusted EBITDA in the first quarter of 2014 was positive \$0.5 million, compared to positive \$2.7 million in the previous quarter and a negative \$3.7 million in the first quarter of 2013.

"Pixelworks is off to a solid start in 2014 with first quarter revenue up 64% year-over-year, driven by growth in our chip business and continued successful execution on our licensing partnerships," said Bruce Walicek, President and CEO of Pixelworks. "We begin Q2 with significant momentum driven by strong product demand, further monetization of our technology portfolio, and the introduction this quarter of our first product for the mobile market. We are excited about Pixelworks' potential and are well positioned for the future."

The Company will discuss the details of its business outlook for the second quarter of 2014 during its conference call scheduled for today, May 8, 2014, 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 877-359-9508 and using passcode 29483023. 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 Thursday, May 15, 2014, and can be accessed by calling 855-859-2056 and using passcode 29483023.

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 income (loss) and non-GAAP net income (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 income (loss) and adjusted EBITDA which Pixelworks defines as GAAP net income (loss) before interest expense and other, net, income tax provision (benefit), 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 forward-looking statements, including, without limitation, the statements in Bruce Walicek's quote with respect to the Company's growth opportunities, product demand, technology portfolio, expected new product introduction in 2014, and the Company's potential and position for the future, 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. These statements may be identified by use of terms such as "begin," "continue," "will," "believe," and similar terms or the negative of such terms. 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, 2013 as well as 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		
	March 31, 2014	December 31, 2013	March 31, 2013
Revenue, net	\$ 13,541	\$ 14,984	\$ 8,271
Cost of revenue (1)	5,546	6,495	4,294
Gross profit	7,995	8,489	3,977
Operating expenses:			
Research and development (2)	6,385	4,536	5,884
Selling, general and administrative (3)	4,049	3,715	3,598
Total operating expenses	10,434	8,251	9,482
Income (loss) from operations	(2,439)	238	(5,505)
Interest expense and other, net	(122)	(109)	(98)
Income (loss) before income taxes	(2,561)	129	(5,603)
Provision (benefit) for income taxes	(54)	179	(198)
Net loss	\$ (2,507)	\$ (50)	\$ (5,405)
Net loss per share - basic and diluted	\$ (0.11)	\$ (0.00)	\$ (0.29)
Weighted average shares outstanding - basic and diluted	22,204	21,985	18,456

(1) Includes:

Additional amortization of non-cancelable prepaid royalty	\$ 56	\$ 103	\$ 91
Stock-based compensation	89	64	40
(2) Includes stock-based compensation	826	522	258
(3) Includes stock-based compensation	788	599	386

PIXELWORKS, INC.

RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL INFORMATION *

(In thousands, except per share data)

(Unaudited)

Three Months Ended

	March 31, 2014	December 31, 2013	March 31, 2013
Reconciliation of GAAP and non-GAAP gross profit			
GAAP gross profit	\$ 7,995	\$ 8,489	\$ 3,977
Additional amortization of non-cancelable prepaid royalty	56	103	91
Stock-based compensation	89	64	40
Total reconciling items included in cost of revenue	145	167	131
Non-GAAP gross profit	\$ 8,140	\$ 8,656	\$ 4,108
Non-GAAP gross profit margin	60.1 %	57.8 %	49.7 %

Reconciliation of GAAP and non-GAAP operating expenses			
GAAP operating expenses	\$ 10,434	\$ 8,251	\$ 9,482
Reconciling item included in research and development:			
Stock-based compensation	826	522	258
Reconciling item included in selling, general and administrative:			
Stock-based compensation	788	599	386
Total reconciling items included in operating expenses	1,614	1,121	644
Non-GAAP operating expenses	\$ 8,820	\$ 7,130	\$ 8,838

Reconciliation of GAAP and non-GAAP net income (loss)			
GAAP net loss	\$(2,507)	\$(50)	\$(5,405)
Reconciling items included in cost of revenue	145	167	131
Reconciling items included in operating expenses	1,614	1,121	644
Tax effect of non-GAAP adjustments	(38)	17	(43)
Non-GAAP net income (loss)	\$(786)	\$ 1,255	\$(4,673)
Non-GAAP net income (loss) per share:			
Basic	\$(0.04)	\$ 0.06	\$(0.25)
Diluted	\$(0.04)	\$ 0.05	\$(0.25)
Non-GAAP weighted average shares outstanding:			
Basic	22,204	21,985	18,456
Diluted	22,204	23,468	18,456

* Our non-GAAP gross profit, non-GAAP gross profit margin, non-GAAP operating expenses, non-GAAP net income (loss) and non-GAAP net income (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 income (loss) and non-GAAP net income (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		
	March 31, 2014	December 31, 2013	March 31, 2013
Reconciliation of GAAP net loss and adjusted EBITDA			
GAAP net loss	\$(2,507)	\$(50)	\$(5,405)
Stock-based compensation	1,703	1,185	684
Additional amortization of non-cancelable prepaid royalty	56	103	91
Tax effect of non-GAAP adjustments	(38)	17	(43)
Non-GAAP net income (loss)	\$(786)	\$ 1,255	\$(4,673)
EBITDA adjustments:			
Depreciation and amortization	\$ 1,144	\$ 1,167	\$ 1,058
Interest expense and other, net	122	109	98
Non-GAAP provision (benefit) for income taxes	(16)	162	(155)
Adjusted EBITDA	\$ 464	\$ 2,693	\$(3,672)

* 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)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,920	\$ 20,805
Accounts receivable, net	4,362	4,761
Inventories	2,027	1,663
Prepaid expenses and other current assets	1,567	2,858
Total current assets	29,876	30,087
Property and equipment, net	6,172	4,084
Other assets, net	2,122	2,573
Total assets	\$ 38,170	\$ 36,744
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,564	\$ 1,327
Accrued liabilities and current portion of long-term liabilities	10,694	10,505
Current portion of income taxes payable	138	92
Short-term line of credit	3,000	3,000
Total current liabilities	15,396	14,924
Long-term liabilities, net of current portion	2,131	677
Income taxes payable, net of current portion	1,874	2,201
Total liabilities	19,401	17,802
Shareholders' equity	18,769	18,942
Total liabilities and shareholders' equity	\$ 38,170	\$ 36,744

Source: Pixelworks, Inc.

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