



Pixelworks Reports First Quarter 2015 Financial Results

April 30, 2015

SAN JOSE, Calif.--(BUSINESS WIRE)--Apr. 30, 2015-- 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, 2015.

For the first quarter of 2015, revenue was \$14.4 million, compared to \$15.1 million in the prior quarter and \$13.5 million in the first quarter of 2014. The year-over-year increase in revenue was primarily driven by 35 percent growth in chip revenue, reflecting market share gains in the projector market.

On a GAAP basis, gross profit margin in the first quarter of 2015 was 48.4%, compared to 50.0% in the fourth quarter of 2014 and 59.0% in the first quarter of 2014. First quarter 2015 GAAP operating expenses were \$10.2 million, compared to \$10.2 million in the previous quarter and \$10.4 million in the first quarter of 2014.

For the first quarter of 2015, the Company recorded a GAAP net loss of \$3.4 million, or \$0.14 per share, compared to a GAAP net loss of \$2.8 million, or \$0.12 per share, in the fourth quarter of 2014 and GAAP net loss of \$2.5 million, or \$0.11 per share, in the first quarter of 2014.

On a non-GAAP basis, first quarter 2015 gross profit margin was 48.8%, compared to 50.3% in the fourth quarter of 2014 and 60.1% in the first quarter of 2014. First quarter 2015 gross margin was lower compared to the year-ago quarter as a result of a higher percentage of chip revenue. First quarter 2015 operating expenses on a non-GAAP basis were \$9.2 million, compared to \$8.8 million in the previous quarter and \$8.8 million in the first quarter of 2014.

For the first quarter of 2015, the Company recorded a non-GAAP net loss of \$2.3 million, or \$0.10 per share, compared to a non-GAAP net loss of \$1.4 million, or \$0.06 per share, in the fourth quarter of 2014 and non-GAAP net loss of \$0.8 million, or \$0.04 per share, in the first quarter of 2014. Adjusted EBITDA in the first quarter of 2015 was a negative \$1.1 million, compared to a negative \$0.1 million in the previous quarter and a positive \$0.5 million in the first quarter of 2014.

"First quarter revenue was higher year-over-year, led by significant growth in chip revenue, which increased 35% over Q1 2014," said Bruce Walicek, President and CEO of Pixelworks. "Most notable during the quarter, we made significant progress with our mobile initiative and saw increasing traction with an expanding set of design wins. Additionally, we are currently on track to introduce and sample our second chip in the IRIS family later this quarter, and we expect to reach mass production on the IRIS family before year-end. I'm very pleased with our continued progress and remain confident that Pixelworks is well positioned to capitalize on the growing importance of video quality across all displays."

The Company will discuss the details of its business outlook for the second quarter of 2015 during its conference call scheduled for today, April 30, 2015, 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 21540819. 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 7, 2015, and can be accessed by calling 855-859-2056 and using passcode 21540819.

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 forward-looking statements, including, without limitation, the statements in Bruce Walicek's quote with respect to the Company's growth opportunities, product shipments, product demand, customer engagements, new product introductions 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, 2014 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, 2015	December 31, 2014	March 31, 2014
Revenue, net	\$ 14,392	\$ 15,105	\$ 13,541
Cost of revenue (1)	7,425	7,546	5,546
Gross profit	6,967	7,559	7,995
Operating expenses:			
Research and development (2)	6,318	6,390	6,385
Selling, general and administrative (3)	3,887	3,776	4,049
Total operating expenses	10,205	10,166	10,434
Loss from operations	(3,238)	(2,607)	(2,439)
Interest expense and other, net	(107)	(118)	(122)
Loss before income taxes	(3,345)	(2,725)	(2,561)
Provision (benefit) for income taxes	19	46	(54)
Net loss	\$ (3,364)	\$ (2,771)	\$ (2,507)
Net loss per share - basic and diluted	\$ (0.14)	\$ (0.12)	\$ (0.11)
Weighted average shares outstanding - basic and diluted	23,328	23,175	22,204

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(1) Includes:

Stock-based compensation	\$ 53	\$ 71	\$ 89
Additional amortization of non-cancelable prepaid royalty	—	(30)	56
(2) Includes stock-based compensation	489	640	826
(3) Includes stock-based compensation	536	690	788

PIXELWORKS, INC.

RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL INFORMATION *

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Reconciliation of GAAP and non-GAAP gross profit			

GAAP gross profit	\$ 6,967	\$ 7,559	\$ 7,995
Stock-based compensation	53	71	89
Additional amortization of non-cancelable prepaid royalty	—	(30)	56
Total reconciling items included in cost of revenue	53	41	145
Non-GAAP gross profit	\$ 7,020	\$ 7,600	\$ 8,140
Non-GAAP gross profit margin	48.8 %	50.3 %	60.1 %

Reconciliation of GAAP and non-GAAP operating expenses

GAAP operating expenses	\$ 10,205	\$ 10,166	\$ 10,434
Reconciling item included in research and development:			
Stock-based compensation	489	640	826
Reconciling item included in selling, general and administrative:			
Stock-based compensation	536	690	788
Total reconciling items included in operating expenses	1,025	1,330	1,614
Non-GAAP operating expenses	\$ 9,180	\$ 8,836	\$ 8,820

Reconciliation of GAAP and non-GAAP net loss

GAAP net loss	\$ (3,364)	\$ (2,771)	\$ (2,507)
Reconciling items included in cost of revenue	53	41	145
Reconciling items included in operating expenses	1,025	1,330	1,614
Tax effect of non-GAAP adjustments	(20)	(6)	(38)
Non-GAAP net loss	\$ (2,306)	\$ (1,406)	\$ (786)
Non-GAAP net loss per share - basic and diluted	\$ (0.10)	\$ (0.06)	\$ (0.04)
Non-GAAP weighted average shares outstanding - basic and diluted	23,328	23,175	22,204

* Our non-GAAP gross profit, non-GAAP gross profit margin, 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		
	March 31, 2015	December 31, 2014	March 31, 2014
Reconciliation of GAAP net loss and adjusted EBITDA			
GAAP net loss	\$ (3,364)	\$ (2,771)	\$ (2,507)
Stock-based compensation	1,078	1,401	1,703
Tax effect of non-GAAP adjustments	(20)	(6)	(38)
Additional amortization of non-cancelable prepaid royalty	—	(30)	56
Non-GAAP net loss	\$ (2,306)	\$ (1,406)	\$ (786)
EBITDA adjustments:			
Depreciation and amortization	\$ 1,098	\$ 1,099	\$ 1,144
Interest expense and other, net	107	118	122
Non-GAAP provision (benefit) for income taxes	39	52	(16)
Adjusted EBITDA	\$ (1,062)	\$ (137)	\$ 464

* 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,	December 31,
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,591	\$ 17,926
Accounts receivable, net	4,760	4,648
Inventories	3,295	2,898
Prepaid expenses and other current assets	900	888
Total current assets	24,546	26,360
Property and equipment, net	5,762	6,402
Other assets, net	1,211	1,382
Total assets	\$ 31,519	\$ 34,144
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,289	\$ 3,154
Accrued liabilities and current portion of long-term liabilities	9,129	8,539
Current portion of income taxes payable	168	197
Short-term line of credit	3,000	3,000
Total current liabilities	14,586	14,890
Long-term liabilities, net of current portion	1,319	1,476
Income taxes payable, net of current portion	1,966	2,094
Total liabilities	17,871	18,460
Shareholders' equity	13,648	15,684
Total liabilities and shareholders' equity	\$ 31,519	\$ 34,144

Source: Pixelworks, Inc.

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