

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 8-K**

CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): October 31, 2019

**PIXELWORKS, INC.**

(Exact name of registrant as specified in its charter)

**Oregon**  
(State or other jurisdiction  
of incorporation)

**000-30269**  
(Commission File Number)

**91-1761992**  
(I.R.S. Employer  
Identification No.)

**226 Airport Parkway, Suite 595  
San Jose, CA 95110  
(408) 200-9200**  
(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive offices)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock	PXLW	The Nasdaq Global Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

**Item 2.02 Results of Operations and Financial Condition.**

On October 31, 2019, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and nine month periods ended September 30, 2019 and held a conference call to discuss the Company's financial results. The press release and conference call contain forward-looking statements regarding the Company, and include cautionary statements identifying important factors that could cause actual results to differ materially from those anticipated.

The press release issued October 31, 2019 is furnished herewith as Exhibit 99.1, to this Report and a copy of the Company's conference call script announcing these financial results is furnished herewith as Exhibit 99.2. The information in this Item 2.02, including Exhibits 99.1 and 99.2, is being furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that Section, nor shall such information be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits.

<b>Exhibit No.</b>	<b>Description</b>
99.1	<a href="#">Press Release issued by Pixelworks, Inc. dated October 31, 2019.</a>
99.2	<a href="#">Pixelworks, Inc. Third Quarter Results Conference Call Script dated October 31, 2019.</a>

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**PIXELWORKS, INC.**

(Registrant)

Dated: October 31, 2019

/s/ Elias N. Nader

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Elias N. Nader  
*Vice President, Chief Financial  
Officer, Secretary and Treasurer*



## Pixelworks Reports Third Quarter 2019 Financial Results

*Mobile Revenue Reaches New High as Customer Engagements Continue to Expand*

**SAN JOSE, Calif., October 31, 2019** - Pixelworks, Inc. (NASDAQ: PXLW), a leading provider of power efficient visual processing solutions, today announced financial results for the third quarter ended September 30, 2019.

### Third Quarter Highlights

- Mobile revenue increased 87% sequentially and 66% year-over-year to a new record
- Iris visual processing solutions incorporated into five smartphones launched across four customers, including HMD's Nokia 7.2 and Nokia 6.2, and the TCL Plex
- Video Delivery revenue grew sequentially and year-over-year, with increased contribution from Over-the-Air (OTA) solutions
- Available video content in TrueCut formats expanded to more than 10,000 hours, with potential reach extended to over 100 million active daily users in China
- TrueCut® Motion Grading recognized with second prestigious award, the Advanced Imaging Society's (AIS) 2019 Entertainment Technology Lumiere Award

President and CEO of Pixelworks, Todd DeBonis, commented, "Our third quarter results played-out largely as expected, as we continued to execute strongly in mobile and across all other areas of the business. Revenue from mobile increased 66% year-over-year to a new record, and we recorded the first commercial revenue from both our Soft Iris solution and our 5<sup>th</sup> generation Iris visual processor.

"As a result of expanding Pixelworks' portfolio of hardware and software-based visual display solutions, we have continued to generate increasing momentum on our mobile growth initiatives as well as key customer engagements. During the quarter, we announced design wins on five newly launched smartphones across four different OEMs, while also supporting active programs with key customers on their planned next-generation mobile devices."

DeBonis concluded, "Looking forward, we are focused on our growth initiatives in mobile visual processing and our award winning TrueCut format, including a combination of previous smartphone wins as well as new engagements across an expanding set of mobile OEM customers and content platform providers. Although macroeconomic headwinds are contributing to prolonged inventory corrections within our digital projector and video delivery businesses in the fourth quarter, we expect strong sequential growth in mobile following its record revenue contribution in the third quarter."

### Third Quarter 2019 Financial Results

Revenue in the third quarter of 2019 was \$18.1 million, compared to \$18.0 million in the second quarter of 2019 and \$21.5 million in the third quarter of 2018. Year-over-year, third quarter revenue reflects continued growth in the Company's mobile and video delivery businesses, more than offset by below normal seasonal demand in the digital projector market.

On a GAAP basis, gross profit margin in the third quarter of 2019 was 51.8%, compared to 52.0% in the second quarter of 2019 and 52.3% in the third quarter of 2018. On a non-GAAP basis, third quarter 2019 gross profit margin was 53.9%, compared to 54.1% in the second quarter of 2019 and 54.7% in the third quarter of 2018.

GAAP operating expenses in the third quarter of 2019 were \$11.8 million, compared to \$11.7 million in the second quarter of 2019 and \$10.8 million in the year-ago quarter. Non-GAAP operating expenses in the third quarter of 2019 were \$10.3 million, compared to \$9.6 million in the second quarter of 2019 and \$8.9 million in the year-ago quarter.

For the third quarter of 2019, the Company recorded a GAAP net loss of \$2.3 million, or (\$0.06) per share, compared to a GAAP net loss of \$2.4 million, or (\$0.06) per share, in the second quarter of 2019, and GAAP net income of \$0.4 million, or \$0.01 per diluted share, in the third quarter of 2018.

For the third quarter of 2019, the Company recorded a non-GAAP net loss of \$0.5 million, or (\$0.01) per share, compared to a non-GAAP net loss of \$0.1 million, or (\$0.00) per share, in the second quarter of 2019 and non-GAAP net income of \$2.7 million, or \$0.07 per diluted share, in the third quarter of 2018.

Adjusted EBITDA in the third quarter of 2019 was \$0.5 million, compared to \$1.0 million in the second quarter of 2019 and \$3.8 million in the third quarter of 2018.

### **Business Outlook**

For the fourth quarter of 2019, Pixelworks expects revenue to be in a range of between \$15.0 million and \$17.0 million. This range reflects weaker than previously expected demand related to inventory corrections in both the digital projector and video delivery markets due to the uncertain geopolitical macro environment, partially offset by continued strong sequential revenue growth in the mobile market. Additional guidance will be provided as part of the Company's scheduled earnings conference call.

### **Conference Call Information**

Pixelworks will host a conference call today, October 31, 2019, at 2:00 p.m. Pacific Time, which can be accessed by calling 1-877-359-9508 and using passcode 1262279. A Web broadcast of the call can be accessed by visiting the Company's investor page at [www.pixelworks.com](http://www.pixelworks.com). For those unable to listen to the live Web broadcast, it will be archived for at least 30 days. A replay of the conference call will also be available through Thursday, November 7, 2019, and can be accessed by calling 1-855-859-2056 and using passcode 1262279.

### **About Pixelworks, Inc.**

Pixelworks provides industry-leading display processing and video delivery solutions and technology that enable highly authentic viewing experiences with superior visual quality. The Company has a 20-year history of delivering image processing innovation to providers of leading-edge consumer electronics, professional displays and video streaming services. Pixelworks is headquartered in San Jose, CA. For more information, please visit the company's web site at [www.pixelworks.com](http://www.pixelworks.com).

Note: Pixelworks, the Pixelworks logo and TrueCut are registered trademarks of Pixelworks, Inc. All other trademarks are the property of their respective owners.

### **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 exclude gain on sale of patents, deferred revenue fair value adjustment, inventory step-up and backlog amortization, amortization of acquired intangible assets, stock-based compensation expense, restructuring expenses, gain on extinguishment of convertible debt, and discount accretion on convertible debt fair value which are all required under GAAP as well as the tax effect of the non-GAAP adjustments. The press release also makes reference to and reconciles GAAP net income (loss) and adjusted EBITDA, which Pixelworks defines as GAAP net income (loss) before interest income and other, net, income tax provision (benefit), depreciation and amortization, as well as the specific items listed above.*

*Pixelworks management uses these non-GAAP financial measures internally to understand, manage and evaluate the business and establish its operational goals, review its operations on a period to period basis, for compensation evaluations, to measure performance, and for budgeting and resource allocation. Pixelworks management believes it is useful for the Company and investors to review, as applicable, both GAAP information and non-GAAP financial measures to help assess the performance of Pixelworks' continuing business and to evaluate Pixelworks' future prospects. These non-GAAP measures, when reviewed together with the GAAP financial information, provide additional transparency and information for comparison and analysis of operating performance and trends. These non-GAAP measures exclude certain items to facilitate management's review of the comparability of our core operating results on a period to period basis.*

*In calculating the above non-GAAP results, management specifically adjusted for certain items related to the acquisition of ViXS Systems, Inc., including deferred revenue fair value adjustment, amortization of acquired intangible assets, and impact of inventory step up, both related to fair valuing the items, restructuring expenses related to a reduction in workforce and facility closure and consolidations, gain on debt extinguishment, and accretion on convertible debt. Management considers these items as either limited in term or having no impact on Pixelworks' cash flows, and therefore has excluded such items to facilitate a review of current operating performance and comparisons to our past operating performance.*

*Because the Company's non-GAAP financial measures are not calculated in accordance with GAAP, they may not necessarily be comparable to similarly titled measures employed by other companies. These non-GAAP financial measures should not be considered in isolation or as a substitute for the comparable GAAP measures and should be read only in conjunction with the*

Company's 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 Pixelworks' website.

### **Safe Harbor Statement**

This release contains 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. These statements may be identified by use of terms such as "begin," "continue," "will," "expect," "believe," "anticipate" and similar terms or the negative of such terms, and include, without limitation, statements about the Company's digital projection, mobile and video delivery businesses, including market movement and demand, customer engagements, growth in the mobile market, strategy, and additional guidance, particularly as to revenue for the fourth quarter of 2019. 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 execute on our strategy, competitive factors, such as rival chip architectures, introduction or traction by competing designs, or pricing pressures; the success of our products in expanded markets; current global economic challenges; changes in the digital display and projection markets; seasonality in the consumer electronics market; our efforts to achieve profitability from operations; 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 from those discussed in the forward-looking statements is included from time to time in the Company's Securities and Exchange Commission filings, including its Annual Report on Form 10-K for the year ended December 31, 2018 as well as subsequent SEC filings.

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

- Financial Tables Follow -

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

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	September 30,
	2019	2019	2018	2019	2018
Revenue, net (1)	\$ 18,057	\$ 18,027	\$ 21,472	\$ 52,732	\$ 56,015
Cost of revenue (2)	8,710	8,651	10,235	25,537	27,442
Gross profit	9,347	9,376	11,237	27,195	28,573
Operating expenses:					
Research and development (3)	6,458	6,364	5,322	19,294	16,208
Selling, general and administrative (4)	5,333	4,935	5,070	15,728	14,643
Restructuring	—	398	414	398	1,035
Total operating expenses	11,791	11,697	10,806	35,420	31,886
Income (loss) from operations	(2,444)	(2,321)	431	(8,225)	(3,313)
Interest income and other, net (5)	70	104	88	270	1,265
Gain on sale of patents	—	—	—	3,905	—
Total other income, net	70	104	88	4,175	1,265
Income (loss) before income taxes	(2,374)	(2,217)	519	(4,050)	(2,048)
Provision (benefit) for income taxes	(68)	231	88	571	396
Net income (loss)	\$ (2,306)	\$ (2,448)	\$ 431	\$ (4,621)	\$ (2,444)
Net income (loss) per share:					
Basic	\$ (0.06)	\$ (0.06)	\$ 0.01	\$ (0.12)	\$ (0.07)
Diluted	\$ (0.06)	\$ (0.06)	\$ 0.01	\$ (0.12)	\$ (0.07)
Weighted average shares outstanding:					
Basic	38,086	37,688	36,195	37,677	35,697
Diluted	38,086	37,688	37,993	37,677	35,697
(1) Includes deferred revenue fair value adjustment	\$ —	\$ —	\$ 52	\$ —	\$ 52
(2) Includes:					
Amortization of acquired intangible assets	298	298	298	894	894
Stock-based compensation	89	83	87	267	231
Inventory step-up and backlog amortization	—	—	97	12	458
(3) Includes stock-based compensation	570	703	609	1,934	1,831
(4) Includes:					
Stock-based compensation	839	879	762	2,651	1,983
Amortization of acquired intangible assets	76	76	101	236	303
(5) Includes:					
Gain on debt extinguishment	—	—	—	—	(1,272)
Discount accretion on convertible debt fair value	—	—	—	—	69

**PIXELWORKS, INC.**  
**RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL INFORMATION \***  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	September 30,
	2019	2019	2018	2019	2018
<b>Reconciliation of GAAP and non-GAAP gross profit</b>					
GAAP gross profit	\$ 9,347	\$ 9,376	\$ 11,237	\$ 27,195	\$ 28,573
Amortization of acquired intangible assets	298	298	298	894	894
Stock-based compensation	89	83	87	267	231
Inventory step-up and backlog amortization	—	—	97	12	458
Deferred revenue fair value adjustment	—	—	52	—	52
Total reconciling items included in gross profit	387	381	534	1,173	1,635
Non-GAAP gross profit	\$ 9,734	\$ 9,757	\$ 11,771	\$ 28,368	\$ 30,208
Non-GAAP gross profit margin	53.9%	54.1%	54.7%	53.8%	53.9%
<b>Reconciliation of GAAP and non-GAAP operating expenses</b>					
GAAP operating expenses	\$ 11,791	\$ 11,697	\$ 10,806	\$ 35,420	\$ 31,886
Reconciling item included in research and development:					
Stock-based compensation	570	703	609	1,934	1,831
Reconciling items included in selling, general and administrative:					
Stock-based compensation	839	879	762	2,651	1,983
Amortization of acquired intangible assets	76	76	101	236	303
Restructuring	—	398	414	398	1,035
Total reconciling items included in operating expenses	1,485	2,056	1,886	5,219	5,152
Non-GAAP operating expenses	\$ 10,306	\$ 9,641	\$ 8,920	\$ 30,201	\$ 26,734
<b>Reconciliation of GAAP and non-GAAP net income (loss)</b>					
GAAP net income (loss)	\$ (2,306)	\$ (2,448)	\$ 431	\$ (4,621)	\$ (2,444)
Reconciling items included in gross profit	387	381	534	1,173	1,635
Reconciling items included in operating expenses	1,485	2,056	1,886	5,219	5,152
Reconciling items included in total other income, net	—	—	—	(3,905)	(1,203)
Tax effect of non-GAAP adjustments	(84)	(86)	(181)	49	(236)
Non-GAAP net income (loss)	\$ (518)	\$ (97)	\$ 2,670	\$ (2,085)	\$ 2,904
Non-GAAP net income (loss) per share:					
Basic	\$ (0.01)	\$ (0.00)	\$ 0.07	\$ (0.06)	\$ 0.08
Diluted	\$ (0.01)	\$ (0.00)	\$ 0.07	\$ (0.06)	\$ 0.08
Non-GAAP weighted average shares outstanding:					
Basic	38,086	37,688	36,195	37,677	35,697
Diluted	38,086	37,688	37,993	37,677	35,697

\*Set forth above are reconciliations of the non-GAAP financial measure to the most directly comparable GAAP financial measure. The non-GAAP financial measure disclosed by the company has limitations and should not be considered a substitute for, or superior to, the financial measure prepared in accordance with GAAP, and the reconciliations from GAAP to Non-GAAP actuals should be carefully evaluated. Please refer to "Non-GAAP Financial Measures" in this document for an explanation of the adjustments made to the comparable GAAP measures, the ways management uses the non-GAAP measures, and the reasons why management believes the non-GAAP measures provide useful information for investors.



**PIXELWORKS, INC.**  
**RECONCILIATION OF GAAP AND NON-GAAP EARNINGS PER SHARE**  
**(Figures may not sum due to rounding)**  
**(Unaudited)**

	Three Months Ended						Nine Months Ended			
	September 30,		June 30,		September 30,		September 30,		September 30,	
	2019		2019		2018		2019		2018	
	Dollars per share		Dollars per share		Dollars per share		Dollars per share		Dollars per share	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
<b>Reconciliation of GAAP and non-GAAP net income (loss)</b>										
GAAP net income (loss)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ 0.01	\$ 0.01	\$ (0.12)	\$ (0.12)	\$ (0.07)	\$ (0.07)
Reconciling items included in gross profit	0.01	0.01	0.01	0.01	0.01	0.01	0.03	0.03	0.05	0.05
Reconciling items included in operating expenses	0.04	0.04	0.05	0.05	0.05	0.05	0.14	0.14	0.14	0.14
Reconciling items included in total other income, net	—	—	—	—	—	—	(0.10)	(0.10)	(0.03)	(0.03)
Tax effect of non-GAAP adjustments	—	—	—	—	(0.01)	—	—	—	(0.01)	(0.01)
Non-GAAP net income (loss)	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ 0.07</u>	<u>\$ 0.07</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ 0.08</u>	<u>\$ 0.08</u>

\*Set forth above are reconciliations of the non-GAAP financial measure to the most directly comparable GAAP financial measure. The non-GAAP financial measure disclosed by the company has limitations and should not be considered a substitute for, or superior to, the financial measure prepared in accordance with GAAP, and the reconciliations from GAAP to Non-GAAP actuals should be carefully evaluated. Please refer to "Non-GAAP Financial Measures" in this document for an explanation of the adjustments made to the comparable GAAP measures, the ways management uses the non-GAAP measures, and the reasons why management believes the non-GAAP measures provide useful information for investors.

**PIXELWORKS, INC.**  
**RECONCILIATION OF GAAP AND NON-GAAP GROSS PROFIT MARGIN \***  
**(Figures may not sum due to rounding)**  
**(Unaudited)**

	Three Months Ended			Nine Month Ended	
	September 30,	June 30,	September 30,	September 30,	September 30,
	2019	2019	2018	2019	2018
<b>Reconciliation of GAAP and non-GAAP gross profit margin</b>					
GAAP gross profit margin	51.8%	52.0%	52.3%	51.6%	51.0%
Amortization of acquired intangible assets	1.7	1.7	1.4	1.7	1.6
Stock-based compensation	0.5	0.5	0.4	0.5	0.4
Inventory step-up and backlog amortization	—	—	0.5	0.0	0.8
Deferred revenue fair value adjustment	—	—	0.2	—	0.1
Total reconciling items included in gross profit	2.1	2.1	2.5	2.2	2.9
Non-GAAP gross profit margin	53.9%	54.1%	54.7%	53.8%	53.9%

\*Set forth above are reconciliations of the non-GAAP financial measure to the most directly comparable GAAP financial measure. The non-GAAP financial measure disclosed by the company has limitations and should not be considered a substitute for, or superior to, the financial measure prepared in accordance with GAAP, and the reconciliations from GAAP to Non-GAAP actuals should be carefully evaluated. Please refer to "Non-GAAP Financial Measures" in this document for an explanation of the adjustments made to the comparable GAAP measures, the ways management uses the non-GAAP measures, and the reasons why management believes the non-GAAP measures provide useful information for investors.

**PIXELWORKS, INC.**  
**RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL INFORMATION \***  
(In thousands)  
(Unaudited)

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	September 30,
	2019	2019	2018	2019	2018
<b>Reconciliation of GAAP net income (loss) and adjusted EBITDA</b>					
GAAP net income (loss)	\$ (2,306)	\$ (2,448)	\$ 431	\$ (4,621)	\$ (2,444)
Stock-based compensation	1,498	1,665	1,458	4,852	4,045
Amortization of acquired intangible assets	374	374	399	1,130	1,197
Tax effect of non-GAAP adjustments	(84)	(86)	(181)	49	(236)
Restructuring	—	398	414	398	1,035
Inventory step-up and backlog amortization	—	—	97	12	458
Amortization of deferred revenue fair value adjustment	—	—	52	—	52
Gain on sale of patents	—	—	—	(3,905)	—
Gain on debt extinguishment	—	—	—	—	(1,272)
Discount accretion on convertible debt fair value	—	—	—	—	69
Non-GAAP net income (loss)	\$ (518)	\$ (97)	\$ 2,670	\$ (2,085)	\$ 2,904
<b>EBITDA adjustments:</b>					
Depreciation and amortization	\$ 1,024	\$ 887	\$ 933	\$ 2,824	\$ 2,682
Non-GAAP interest income and other, net	(70)	(104)	(88)	(270)	(62)
Non-GAAP provision for income taxes	16	317	269	522	632
Adjusted EBITDA	\$ 452	\$ 1,003	\$ 3,784	\$ 991	\$ 6,156

\*Set forth above are reconciliations of the non-GAAP financial measure to the most directly comparable GAAP financial measure. The non-GAAP financial measure disclosed by the company has limitations and should not be considered a substitute for, or superior to, the financial measure prepared in accordance with GAAP, and the reconciliations from GAAP to Non-GAAP actuals should be carefully evaluated. Please refer to "Non-GAAP Financial Measures" in this document for an explanation of the adjustments made to the comparable GAAP measures, the ways management uses the non-GAAP measures, and the reasons why management believes the non-GAAP measures provide useful information for investors.

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

	September 30, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,596	\$ 17,944
Short-term marketable securities	6,682	6,069
Accounts receivable, net	8,857	6,982
Inventories	3,133	2,954
Prepaid expenses and other current assets	1,586	1,494
Total current assets	35,854	35,443
Property and equipment, net	4,215	6,151
Operating lease right of use assets	4,608	—
Other assets, net	1,504	1,132
Acquired intangible assets, net	3,078	4,208
Goodwill	18,407	18,407
Total assets	\$ 67,666	\$ 65,341
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,318	\$ 2,116
Accrued liabilities and current portion of long-term liabilities	8,778	10,256
Current portion of income taxes payable	327	263
Total current liabilities	11,423	12,635
Long-term liabilities, net of current portion	527	1,017
Operating lease liabilities, net of current portion	3,222	—
Income taxes payable, net of current portion	2,297	2,299
Total liabilities	17,469	15,951
Shareholders' equity	50,197	49,390
Total liabilities and shareholders' equity	\$ 67,666	\$ 65,341

**Contacts:**

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Company Contact

Pixelworks, Inc.

Elias Nader

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E: [enader@pixelworks.com](mailto:enader@pixelworks.com)

**Pixelworks, Inc. Q3 2019 Conference Call**  
**October 31, 2019**

**Operator**

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s third quarter 2019 earnings conference call. I will be your operator for today's call. At this time, all participants are in a listen-only mode. Following management's prepared remarks, we will conduct a question-and-answer session. This conference call is being recorded for replay purposes. I would now like to turn the call over to Pixelworks' Vice President and CFO, Mr. Elias Nader.

**Elias Nader**

Good afternoon and thank you for joining us today. With us on today's call is Todd DeBonis, Pixelworks' President and CEO. The purpose of today's conference call is to supplement the information provided in Pixelworks' press release issued earlier today announcing the Company's financial results for the third quarter 2019.

Before we begin, I would like to remind you that various remarks we make on this call -- including those about our projected future financial results, economic and market trends, and our competitive position -- constitute forward-looking statements. These forward-looking statements and all other statements made on this call that are not historical facts are subject to a number of risks and uncertainties that may cause actual results to differ materially.

All forward-looking statements are based on the Company's beliefs as of today, Thursday, October 31, 2019, and we undertake no obligation to update any such statements to reflect events or circumstances occurring after today. Please refer to today's press release, our Annual Report on Form 10-K for the year ended December 31, 2018, and subsequent SEC filings for a description of factors that could cause forward-looking statements to differ materially from actual results.

Additionally, the Company's press release and management's statements during this conference call will include discussions of certain measures and financial information in GAAP and non-GAAP terms, including gross margin, operating expenses, net income/loss, and net income/loss per share. These non-GAAP measures exclude gain on sale of patents, deferred revenue fair value adjustment, inventory step-up and backlog amortization, amortization of acquired intangible assets, stock-based compensation expense, restructuring expenses, discount accretion on convertible debt fair value and gain on extinguishment of convertible debt. We use these non-GAAP measures internally to assess our operating performance. The Company believes these non-GAAP measures provide a meaningful perspective on our core operating results and underlying cash flow dynamics, but we caution investors to consider these measures in addition to, not as a substitute for, nor superior to, the Company's consolidated financial results as presented in accordance with GAAP.

Also included in the Company's press release are definitions and reconciliations of GAAP to non-GAAP net income/loss and GAAP net income/loss to adjusted EBITDA, which provide additional details.

With that said, I will now turn the call over to Todd for his opening remarks.

**Todd DeBonis**

Thank you, Elias and good afternoon to those joining today's call over the phone and webcast.

The third quarter played-out largely as expected, with revenue of \$18.1 million coming in above the midpoint of our guidance range. We continued to execute well across all areas of the business, and mobile revenue grew 87% sequentially, becoming a larger portion of our overall revenue mix. Gross margin was approximately 54% and operating expenses in the quarter were \$10.3 million, resulting in adjusted EPS of a one cent loss - all of which were also at or near the midpoint of our guidance.

Throughout this year, we've remained focused on meaningfully advancing our growth initiative in mobile. This has included expanding our portfolio of visual processing solutions to now include multiple Iris visual processors with select feature sets at compelling price points, as well as the introductions of our software-only solutions, Soft Iris, and also our innovative end-to-end cinematic video platform, TrueCut. We've also secured a number of key strategic partnerships that are contributing to our current co-marketing efforts and the further development of ecosystems that encourage increased adoption of Pixelworks technology. Together with our broader portfolio of visual processing solutions, we have significantly expanded Pixelworks' total addressable market, resulting in a growing number of wins at existing and multiple first-time mobile customers.

Taking a closer look at our mobile business in the third quarter - as I mentioned, revenue from mobile grew 87% sequentially and was up over 66% year-over-year to a quarterly record - it was comprised almost entirely of revenue contribution from our Iris solutions, including the first commercial revenue from our Soft Iris solution. As further evidence of our consistent growth momentum, the third quarter represented the eighth consecutive quarter of year-over-year growth, and mobile revenue for the first nine months of 2019 grew 90% over the same period in 2018.

During the third quarter, we formally announced a total of FIVE design wins on newly launched smartphones across FOUR different mobile OEMs - one of which, TCL, was a new first-time smartphone customer. I discussed two of these wins as part of our second quarter conference call, the Shark 2 Pro which is Black Shark's fourth device to include our Iris visual processor, and ASUS' launch of the ROG Phone II in conjunction with Tencent Games. As a reminder, both of these leading smartphones targeted for gamers leverage Qualcomm's Snapdragon 855/Plus mobile Platform - and specific to the ROG Phone II, it is the first smartphone to incorporate our Soft Iris solution.

More recently, we announced wins on the Nokia 7.2 and Nokia 6.2 smartphones as part of our continued collaborative partnership with HMD Global. Both devices were launched in September at IFA 2019 and feature PureDisplay technology enabled by Pixelworks' Iris visual processor to deliver a premium mobile display experience at an affordable price. As compared to similarly-priced Android smartphones, the Nokia 7.2 and Nokia 6.2 render a 64-fold increase in color tonality through full 10-bit, certified HDR displays and produce up to 3x improvement in video contrast by leveraging dynamic backlight control in combination with Pixelworks' industry-leading tone mapping technology.

Also launched at IFA was the TCL PLEX smartphone, which utilizes our Iris visual processor to provide a range of premium features including HDR10, SDR-to-HDR conversion, advanced sharpness and contrast enhancement, and auto-adaptive display. As the world's second largest TV manufacturer, TCL chose to leverage Pixelworks technology and expertise as part of a re-launch into the mobile market and bring a market-leading TV experience to its first TCL-branded smartphone. In addition to representing a new mobile customer, this win with TCL also serves as further validation of our advanced visual display technology for mobile devices.

All of these recently launched smartphones that incorporate either our Iris visual processor or newly introduced Soft Iris solution have received excellent reviews and recognition for having uniquely high-performance displays. They each contributed to mobile revenue during the quarter, and we expect to ship in support of follow-on orders from these customers in the fourth quarter, which I will discuss more towards the end of my prepared remarks.

Also complementing our longer-term growth initiative in mobile is TrueCut. Since our commercial introduction of this innovative end-to-end solution for cinematic motion and HDR earlier this year, our primary focus has been on expanding the platform's market reach as well as the amount of content available in TrueCut format. Through ongoing close collaboration with our lead customer YouKu, we've continued to make consistent and substantial progress on several key metrics.

Over the last quarter, the amount of video content available in TrueCut format has more than quadrupled from 2,500 hours to more than 10,000 hours of available content. Additionally, Pixelworks has expanded the number of TrueCut enabled smartphones utilizing the YouKu app from approximately 70 existing models across 6 mobile OEMs at the end of June 2019 - to now over 100 existing smartphone models across 9 different mobile OEMs. Collectively, these metrics translate into having successfully extended the reach of TrueCut content to well over 100 million mobile device users and to more than 55% of all daily average users of YouKu in China.

As a result, we firmly believe that Pixelworks' TrueCut solution is enabling the single most comprehensive ecosystem for the creation, delivery and viewing of high-quality HDR video on mobile devices in China. Today, YouKu now has a more standardized process in place for the efficient conversion of its existing content library, and they also remain committed to developing new high-quality HDR content mastered in original TrueCut format. In addition to Pixelworks continuing to qualify additional existing mobile devices to stream high-quality HDR video content exclusively through the YouKu app, we are preparing to actively pursue direct engagements for the TrueCut certification of next-generation devices with mobile, TV and Set-top-Box OEMs.

As I've discussed previously, TrueCut's value proposition and the total market opportunity extends well beyond the mobile device market. A fundamental part of the end-to-end platform solution that we've developed with TrueCut is a set of software tools designed to expand the boundaries for the creators of high-quality cinematic motion and HDR content. With this in mind, I want to once again acknowledge our TrueCut team following the recently announced Entertainment Technology Lumiere Award from the Advanced Imaging Society for TrueCut motion grading tools. This second prestigious award serves as further recognition of TrueCut's innovation and the unique value it provides to content creators seeking to deliver superior-quality content.

Shifting to our video delivery business - Following several consecutive quarters of double-digit growth, revenue was up slightly in the third quarter on both a sequential and year-over-year basis.

The growth of video delivery in recent quarters has been driven by initial customer ramps of new ADSB-compatible 4K PVRs and set-top converter boxes for the Japanese consumer electronics market. Early in the third quarter, we observed a notable decline in forward bookings, as our lead customers experienced much softer pull-through from consumers, particularly for set-top-box converter products. As a result, we believe our OEM customers are focused on reducing existing inventories in the fourth quarter and through their fiscal year that ends in March of 2020.

On the positive side, during the quarter we experienced a meaningful uptick in orders of our XCode transcoders from a leading OTA customer. This increase was in support of initial builds of new dual- and quad-tuner OTA devices in advance of our customer's planned product launches during the next several quarters. Based on the current bookings associated with these new product launches, we currently expect to generate record revenue from OTA transcoders in the fourth quarter.

Although this anticipated increase in OTA revenue will be more than offset in the near-term by the inventory correction in the Japanese consumer electronics market, looking several quarters out we remain well positioned with multiple engagements on new programs for next-generation in-home media and OTA devices. Additionally, we believe that the increased availability of high-quality broadcast content, particularly around Japan's hosting of the Olympics in 2020, and new introductions of feature rich, 4K ADSB-compatible devices will contribute to broader consumer adoption and the potential for renewed growth in video delivery during the course of next year.

Turning to a brief update on digital projector - as expected, revenue declined sequentially and year-over-year, primarily reflecting increased caution among customers in reaction to the prevailing macroeconomic headwinds. More specifically, the demand profile of several end markets has continued to remain soft, particularly in China where government spending on education can account for as much as 2/3 of projector end market demand. Although we had remained hopeful that lower than normal book-to-bill entering the third quarter could firm up as the year progressed, we have yet to see a sustainable uptick in order demand from customers. Instead, the current market environment within projector is more indicative of a prolonged inventory correction.

Also contributing to the headwinds and our cautious near-term outlook for projector, we expect our large co-development customer to start transitioning to our next-generation SoC beginning in the fourth quarter. Although we still anticipate this customer's transition to play-out over at least several quarters, the new chip's lower ASP will serve as an additional headwind to projector revenue in future quarters. As such, we continue to expect lower than historical seasonal demand in the digital projector business through at least early next year.

Looking forward, and also circling back to my comments from last quarter regarding our engagement with a tier one mobile customer targeting a product launch before year-end. As a result of the tremendous effort put forth by our team in recent months, the depth and scope of this engagement has expanded beyond the first program. This involved further prioritizing our resources, both onsite at the Tier one customer's location and expanding our local support team by approximately 10 software and application engineers. Additionally, we negotiated a shared risk agreement with this customer that led to booking significant Iris 5 backlog in anticipation of the ramp of a series of programs through Q1 of next year. Although we are building this inventory in preparation for a positive outcome on all of the programs, it increasingly looks like the launch schedule for the first program may be too aggressive for our Iris 5 visual processor to be included. As such, our guidance for the fourth quarter assumes no contribution from this first in a series of program engagements with this tier-one customer.

Given the concentrated effort we are making at this Tier one customer, in addition to supporting our previously announced customers, we've had to become highly selective on further expansion of mobile customer engagements in the near-term.

As you may have read China's three mobile service providers today launched their 5G service in 50 cities throughout China. As of today there is a limited number of 5G mobile devices available from the leading Chinese smartphone OEMs and there is a race to see which OEM can fill out their 5G product line first. In addition, there's a race to incorporate high frame rate, high performance displays in conjunction with this 5G roll-out - which has created a conducive environment for our Visual Processing solutions. We are seeing strong interest from additional customers for both our premium, mid-range and software solutions, including from additional Tier one mobile OEMs. As such, we are aggressively working to position new and existing resources in order to address some of these additional engagement opportunities during the course of 2020.

In closing, and specific to our outlook for the fourth quarter, our guidance reflects the combined impact of a softer macroeconomic environment, seasonality and more pronounced than anticipated inventory corrections across both our projector and video delivery businesses. We expect these headwinds to be somewhat offset by a continued ramp and another quarter of solid sequential growth in mobile. Specific to the ongoing ramp in mobile, I want to emphasize that we do NOT expect the overall macroeconomic backdrop to meaningfully influence the near-term ramp, either positively or negatively. Additionally, based on current bookings associated with anticipated design wins - we believe that mobile will account for up to 20% of our revenue guidance for the fourth



quarter. And finally, mobile revenue beyond the fourth quarter will be heavily dependent on two critical factors, our continued execution on the technical requirements between now and year-end, and also the market uptake of our tier-one customer's planned launch of these new devices.

With that I'll turn the call over to Elias for a review of our third quarter financial results as well as more detailed guidance for the fourth quarter.

**Elias Nader**

Thank you, Todd.

Revenue for the third quarter of 2019 was \$18.1 million, compared to \$18.0 million in the second quarter of 2019 and revenue of \$21.5 million in the third quarter of 2018. Revenue for the third quarter of 2019 reflects continued sequential and year-over-year growth in both our mobile and video delivery businesses, partially offset by weaker than normal seasonal demand in the digital projector market.

The breakdown of third quarter revenue by end market was as follows:

- Revenue from mobile was a record \$1.6 million, predominantly from the sale of Iris solutions
- Video delivery revenue was approximately \$3.7 million
- Revenue from digital projector was approximately \$12.8 million

Non-GAAP gross profit margin in the third quarter of 2019 was 53.9%, compared to 54.1% in the second quarter and 54.7% in the third quarter of 2018.

Non-GAAP operating expenses in the third quarter of 2019 were \$10.3 million, compared to \$9.6 million in the second quarter of 2019 and \$8.9 million in the third quarter of 2018.

Adjusted EBITDA in the third quarter of 2019 was \$452,000, compared to EBITDA of \$1.0 million in the second quarter of 2019 and \$3.8 million in the third quarter of 2018.

For third quarter 2019, the Company reported a non-GAAP net loss of \$518,000, or loss of (\$0.01) per share, compared to a non-GAAP net loss of \$97,000, or breakeven on a per share basis, in the second quarter of 2019, and non-GAAP net income of \$2.7 million, or \$0.07 per diluted share, in the third quarter of 2018.

Moving to the balance sheet, we ended the third quarter with cash, cash equivalents and short-term investments of approximately \$22.3 million, a decrease of approximately \$1.0 million from the prior quarter.

Other balance sheet metrics included day's sales outstanding of 44 days at quarter-end, compared with 37 days at the end of the second quarter. Inventory turns during the third quarter of 2019 were 11.0 times, the same level as in the prior quarter.

Turning to guidance, for the fourth quarter of 2019, we expect revenue to be in a range of between \$15.0 million and \$17.0 million. This guidance reflects an increase in mobile revenue which is expected to represent up to 20% of total revenue in the fourth quarter. The increase in mobile revenue will be offset by geopolitical and macroeconomic headwinds and weaker end market demand contributing to inventory corrections in both the digital projector and video delivery markets.

Additionally, we anticipate non-GAAP gross profit margin in the fourth quarter to be in a range of between 48% and 50%.

We expect non-GAAP operating expenses to be in a range of between \$10 million and \$11 million.

Finally, we expect non-GAAP EPS in the fourth quarter to be in a range of between a loss of \$.05 and a loss \$0.09 per share.

That concludes our prepared remarks, and we will now open the call for questions. Operator, please proceed with managing the Q&A session.