
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 24, 2007

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.)

8100 SW Nyberg Road
Tualatin, Oregon 97062
(503) 454-1750

(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))
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Item 2.02 Results of Operations and Financial Condition.

On October 24, 2007, Pixelworks, Inc. (the "Company") issued a press release announcing financial results for the three and nine month periods ended September 30, 2007. The press release contains forward-looking statements regarding the Company, and includes cautionary statements identifying important factors that could cause actual results to differ materially from those anticipated.

The press release issued October 24, 2007 is furnished herewith as Exhibit 99.1 to this Report. The information in this Item 2.02, including Exhibit 99.1, 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.

99.1 Press Release issued by Pixelworks, Inc. dated October 24, 2007.

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)

Date: October 24, 2007

By: /s/ Steven L. Moore
Steven L. Moore
*Vice President, Finance, Chief Financial Officer and
Treasurer*



Financial News Release

For Immediate Release

Contact Information: Steven Moore
Pixelworks, Inc.
408-200-9221
smoore@pixelworks.com
www.pixelworks.com

Conference Call at 2 p.m. PDT, October 24, 2007 – Pixelworks will host a conference call at 2 p.m. PDT, October 24, 2007, which can be accessed by calling 617-847-8708 and using pass code 96373435. The Web broadcast 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 30 days. A replay of the conference call will also be available through midnight on October 29, 2007, and can be accessed by calling 617-801-6888 and using pass code 91245070.

Pixelworks Reports Third Quarter 2007 Financial Results **Revenue up 5% sequentially;** **Year over year expense reductions of 34% narrow loss**

Tualatin, Ore., October 24, 2007 — Pixelworks, Inc. (NASDAQ:PXLW), an innovative provider of powerful video and pixel processing technology, today announced financial results for the third quarter ended September 30, 2007.

Third quarter 2007 revenue was \$28.1 million, an increase of 4.6 percent sequentially from \$26.9 million in the second quarter of 2007, and a decrease of 22.5 percent from \$36.3 million in the third quarter of 2006. The sequential increase in revenue was due primarily to strength in the Company's core projector and advanced television businesses.

Third quarter 2007 GAAP gross profit margin was 43.0 percent, compared to 43.1 percent in the second quarter of 2007 and 37.5 percent in the third quarter of 2006. Cost of sales included restructuring charges and non-cash expenses of \$0.7 million in the third quarter of 2007, \$0.8 million in the second quarter of 2007 and \$0.7 million in the third quarter of 2006. Third quarter 2007 non-GAAP gross profit margin was 45.7 percent, compared with 46.0 percent in the second quarter of 2007 and 39.6 percent in the third quarter of 2006.

Third quarter 2007 GAAP operating expenses were \$16.4 million, down \$3.0 million from \$19.4 million in the second quarter of 2007 and down \$7.9 million from \$24.3 million in the third quarter of 2006. Third quarter 2007 GAAP operating expenses included \$1.6 million in restructuring charges and \$1.3 million in non-cash expenses; second quarter 2007 GAAP operating expenses included \$2.6 million in restructuring charges and \$1.5 million in non-cash

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expenses; and third quarter 2006 GAAP operating expenses included \$1.9 million in restructuring charges and \$2.2 million in non-cash expenses.

Non-GAAP operating expenses were \$13.4 million in the third quarter of 2007, down \$1.8 million from \$15.3 million in the second quarter of 2007, and down \$6.8 million from \$20.2 million in the third quarter of 2006. The significant decrease in GAAP and non-GAAP operating expenses was a direct result of the accelerated implementation of the Company's restructuring plans, which are focused on returning Pixelworks to profitability.

Third quarter 2007 GAAP net loss was \$(4.4) million, or \$(0.09) per share, compared to \$(7.6) million, or \$(0.16) per share in the second quarter of 2007 and \$(10.1) million, or \$(0.21) per share in the third quarter of 2006. Third quarter 2007 non-GAAP net loss decreased to \$(0.9) million, or \$(0.02) per share, compared to \$(2.7) million, or \$(0.06) per share in the second quarter of 2007 and \$(5.2) million, or \$(0.11) per share in the third quarter of 2006.

Under its previously announced stock repurchase program, the Company has repurchased approximately 2.2 million shares through October 23, 2007.

"During the third quarter we continued to make progress against our strategy to lower Pixelworks' expense structure and to develop new products that address both current and future markets. Both are important areas of focus, as we are committed to making the Company profitable while investing in the products that will drive future growth," said Hans Olsen, President and CEO of Pixelworks.

"With difficult restructuring efforts now largely behind us and our expense base reduced by one third, Pixelworks is well ahead of schedule in rebalancing our expenses to match current revenue opportunities. We will continue to carefully manage our expenses as we develop industry leading pixel processing technologies for the digital projection and flat panel LCD markets," concluded Olsen.

Business Outlook for Fourth Quarter 2007

The following statements are based on the Company's 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, mergers or acquisitions that may be completed after September 30, 2007 or other future events. 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

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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 expects to record a GAAP net loss per share in the fourth quarter of 2007 of \$(0.05) to \$(0.11) and to record non-GAAP net income (loss) per share of \$0.02 to \$(0.03), based on the following estimates:

- The Company anticipates fourth quarter revenue of \$25 million to \$27 million. Revenue is highly dependent on a number of factors including, but not limited to, consumer confidence and spending, seasonality in the consumer electronics market, general economic conditions, the Company's ability to secure additional design wins, timely customer transition to new product designs, new product introductions, production yields, growth rates in the advanced television, multimedia projector, advanced media processor, and LCD monitor and panel markets, levels of inventory at distributors and customers, and supply of products from third party foundries.
- GAAP gross profit margin of approximately 41.5 to 43.5 percent. Non-GAAP gross profit margin of approximately 44.0 to 46.0 percent, which excludes an estimated \$0.8 million for the amortization of acquired intangible assets, restructuring charges and stock-based compensation. 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 product mix, new product yields, and inventory and warranty reserve changes.
- GAAP operating expenses of \$14.1 million to \$15.6 million and non-GAAP operating expenses of \$11.5 million to \$12.5 million. Non-GAAP operating expenses exclude approximately \$2.6 million to \$3.1 million in expenses for stock-based compensation, restructuring charges and amortization of acquired intangible assets.
- Interest and other income, net of approximately \$550,000 on both a GAAP and non-GAAP basis.
- A tax provision of approximately \$500,000 on both a GAAP and non-GAAP basis.

About Pixelworks, Inc.

Pixelworks, headquartered in Tualatin, Oregon, is an innovative provider of powerful video and pixel processing technology for manufacturers of digital projectors and flat panel display products. Pixelworks' flexible design architecture enables our unique technology to

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produce outstanding image quality in our customers' display products in a range of solutions including system-on-chip ICs, co-processor and discrete ICs. At design centers in Shanghai and San Jose, Pixelworks engineers relentlessly push pixel performance to new levels for leading manufacturers of consumer electronics and professional displays worldwide.

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

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Pixelworks® and the Pixelworks logo® are trademarks of Pixelworks, Inc. All other trademarks are the property of their respective owners.

Non-GAAP Financial Measures

This press release makes reference to non-GAAP gross profit margins, operating expenses and net income (loss) which exclude restructuring charges, acquisition-related items, goodwill and intangible asset impairments, stock-based compensation expense, and a gain on the repurchase of long-term debt, all of which are required under GAAP. The Company believes these non-GAAP measures provide a meaningful perspective on its 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 the statements in the "Business Outlook for Fourth Quarter 2007" section above, that are forward-looking statements within the meaning of the "Safe Harbor" provisions of the federal 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: changes in growth in the advanced television, multimedia projector, advanced media processor, and LCD panel and monitor markets; changes in consumer confidence or spending; changes in customer ordering patterns or lead times; seasonality in the consumer electronics market; the success of our products in expanded markets; success in achieving operating efficiencies from our restructuring efforts, our efforts to achieve profitability and a positive EBITDA, competitive factors, such as rival chip architectures, introduction or traction by competing designs, or pricing pressures; insufficient, excess or obsolete inventory and variations in inventory valuation; our product mix; new product yield rates, changes in regional demand for our product, non-acceptance of the combined technologies by leading manufacturers; changes in the recoverability of intangible assets and long lived assets; supply of products from third party foundries; and other risk factors listed from time to time in the Company's Securities and Exchange Commission filings.

The forward-looking statements we make today, speak as of today, and we do not undertake any obligation to update any such statements to reflect events or circumstances occurring after today. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2006, Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, and subsequent SEC filings for a description of factors that could cause actual results to differ materially from the preliminary results announced.

— Financial Tables Follow —

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------------------|------------------------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenue, net | \$ 28,133 | \$ 36,309 | \$ 79,010 | \$ 103,778 |
| Cost of revenue (1) | <u>16,025</u> | <u>22,694</u> | <u>45,447</u> | <u>87,059</u> |
| Gross profit | 12,108 | 13,615 | 33,563 | 16,719 |
| Operating expenses: | | | | |
| Research and development (2) | 8,962 | 13,981 | 30,612 | 43,974 |
| Selling, general and administrative (3) | 5,697 | 8,391 | 20,235 | 26,884 |
| Restructuring | 1,645 | 1,858 | 7,048 | 2,751 |
| Amortization of acquired intangible assets | 89 | 90 | 269 | 513 |
| Impairment loss on goodwill | — | — | — | 133,739 |
| Impairment loss on acquired intangible assets | — | — | — | 1,753 |
| Total operating expenses | <u>16,393</u> | <u>24,320</u> | <u>58,164</u> | <u>209,614</u> |
| Loss from operations | (4,285) | (10,705) | (24,601) | (192,895) |
| Interest income | 1,454 | 1,521 | 4,425 | 4,241 |
| Interest expense | (658) | (667) | (2,003) | (2,041) |
| Amortization of debt issuance costs | (165) | (166) | (496) | (502) |
| Gain on repurchase of long-term debt, net | — | — | — | 3,009 |
| Interest and other income, net | <u>631</u> | <u>688</u> | <u>1,926</u> | <u>4,707</u> |
| Loss before income taxes | (3,654) | (10,017) | (22,675) | (188,188) |
| Provision for income taxes | <u>775</u> | <u>87</u> | <u>1,796</u> | <u>540</u> |
| Net loss | <u>\$ (4,429)</u> | <u>\$ (10,104)</u> | <u>\$ (24,471)</u> | <u>\$ (188,728)</u> |
| Net loss per share — basic and diluted | <u>\$ (0.09)</u> | <u>\$ (0.21)</u> | <u>\$ (0.50)</u> | <u>\$ (3.92)</u> |
| Weighted average shares outstanding — basic and diluted | <u>48,921</u> | <u>48,414</u> | <u>48,853</u> | <u>48,175</u> |
| (1) Includes: | | | | |
| Amortization of acquired developed technology | \$ 705 | \$ 705 | \$ 2,115 | \$ 3,382 |
| Restructuring | 11 | — | 147 | — |
| Stock-based compensation | 22 | 43 | 70 | 162 |
| Impairment loss on acquired developed technology | — | — | — | 21,330 |
| Amortization of acquired inventory mark-up | — | — | — | 26 |
| (2) Includes stock-based compensation | 538 | 831 | 1,718 | 3,088 |
| (3) Includes stock-based compensation | 684 | 1,325 | 2,633 | 4,172 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------------|------------------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Reconciliation of GAAP and non-GAAP gross profit | | | | |
| GAAP gross profit | \$ 12,108 | \$ 13,615 | \$ 33,563 | \$ 16,719 |
| Amortization of acquired developed technology | 705 | 705 | 2,115 | 3,382 |
| Restructuring | 11 | — | 147 | — |
| Stock-based compensation | 22 | 43 | 70 | 162 |
| Impairment loss on acquired developed technology | — | — | — | 21,330 |
| Amortization of acquired inventory mark-up | — | — | — | 26 |
| Total reconciling items included in cost of revenue | 738 | 748 | 2,332 | 24,900 |
| Non-GAAP gross profit | <u>\$ 12,846</u> | <u>\$ 14,363</u> | <u>\$ 35,895</u> | <u>\$ 41,619</u> |
| Non-GAAP gross profit margin | <u>45.7%</u> | <u>39.6%</u> | <u>45.4%</u> | <u>40.1%</u> |
| Reconciliation of GAAP and non-GAAP operating expenses | | | | |
| GAAP operating expenses | \$ 16,393 | \$ 24,320 | \$ 58,164 | \$ 209,614 |
| Reconciling item included in research and development: | | | | |
| Stock-based compensation | 538 | 831 | 1,718 | 3,088 |
| Reconciling item included in selling, general and administrative: | | | | |
| Stock-based compensation | 684 | 1,325 | 2,633 | 4,172 |
| Restructuring | 1,645 | 1,858 | 7,048 | 2,751 |
| Amortization of acquired intangible assets | 89 | 90 | 269 | 513 |
| Impairment loss on goodwill | — | — | — | 133,739 |
| Impairment loss on acquired intangible assets | — | — | — | 1,753 |
| Total reconciling items included in operating expenses | 2,956 | 4,104 | 11,668 | 146,016 |
| Non-GAAP operating expenses | <u>\$ 13,437</u> | <u>\$ 20,216</u> | <u>\$ 46,496</u> | <u>\$ 63,598</u> |

* - 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 acquisition-related items, goodwill and intangible asset impairments, restructuring charges, stock-based compensation expenses, and a gain on the repurchase of long-term debt. 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 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.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------------------|------------------------------------|--------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Reconciliation of GAAP and non-GAAP net loss | | | | |
| GAAP net loss | \$ (4,429) | \$(10,104) | \$(24,471) | \$(188,728) |
| Reconciling items included in cost of revenue | 738 | 748 | 2,332 | 24,900 |
| Reconciling items included in operating expenses | 2,956 | 4,104 | 11,668 | 146,016 |
| Gain on repurchase of long-term debt, net | — | — | — | (3,009) |
| Tax effect of non-GAAP adjustments | (134) | 39 | (123) | 98 |
| Non-GAAP net loss | <u>\$ (869)</u> | <u>\$ (5,213)</u> | <u>\$(10,594)</u> | <u>\$ (20,723)</u> |
| Non-GAAP net loss per share — basic and diluted | <u>\$ (0.02)</u> | <u>\$ (0.11)</u> | <u>\$ (0.22)</u> | <u>\$ (0.43)</u> |
| Non-GAAP weighted average shares outstanding — basic and diluted | <u>48,921</u> | <u>48,414</u> | <u>48,853</u> | <u>48,175</u> |

* - 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 acquisition-related items, goodwill and intangible asset impairments, restructuring charges, stock-based compensation expenses, and a gain on the repurchase of long-term debt. 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 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.

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

| | <u>September 30,</u> <u>2007</u> | <u>December 31,</u> <u>2006</u> |
|--|-------------------------------------|------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 73,643 | \$ 63,095 |
| Short-term marketable securities | 35,933 | 53,985 |
| Accounts receivable, net | 8,669 | 9,315 |
| Inventories, net | 15,512 | 13,809 |
| Prepaid expenses and other current assets | <u>2,800</u> | <u>6,374</u> |
| Total current assets | 136,557 | 146,578 |
| Long-term marketable securities | 11,146 | 17,504 |
| Property and equipment, net | 13,254 | 21,931 |
| Other assets, net | 7,525 | 9,287 |
| Debt issuance costs, net | 2,426 | 2,922 |
| Acquired intangible assets, net | <u>7,165</u> | <u>9,549</u> |
| Total assets | <u>\$ 178,073</u> | <u>\$ 207,771</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 7,159 | \$ 8,093 |
| Accrued liabilities and current portion of long-term liabilities | 16,106 | 19,319 |
| Current portion of income taxes payable | <u>681</u> | <u>10,997</u> |
| Total current liabilities | 23,946 | 38,409 |
| Long-term liabilities, net of current portion | 2,319 | 7,414 |
| Income taxes payable, net of current portion | 9,904 | — |
| Long-term debt | <u>140,000</u> | <u>140,000</u> |
| Total liabilities | 176,169 | 185,823 |
| Shareholders' equity | <u>1,904</u> | <u>21,948</u> |
| Total liabilities and shareholders' equity | <u>\$ 178,073</u> | <u>\$ 207,771</u> |