

**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): August 1, 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))

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.

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

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

On August 1, 2019, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and six month periods ended June 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 August 1, 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 August 1, 2019.</a>
99.2	<a href="#">Pixelworks, Inc. Second Quarter Results Conference Call Script dated August 1, 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: August 1, 2019

/s/ Steven L. Moore

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Steven L. Moore  
*Vice President, Chief Financial  
Officer, Secretary and Treasurer*



## Pixelworks Reports Second Quarter 2019 Financial Results

*Expanded Portfolio of Visual Display Solutions Supporting Continued Momentum in Mobile*

**SAN JOSE, Calif., August 1, 2019** - Pixelworks, Inc. (NASDAQ: PXLW), a leading provider of power efficient visual processing solutions, today announced financial results for the second quarter ended June 30, 2019.

### Second Quarter and Recent Highlights

- Mobile revenue increased 14% and Video Delivery revenue grew 73% year-over-year
- ASUS launched ROG Phone II in conjunction with Tencent Games, as the first smartphone to incorporate Soft Iris solution running on the Qualcomm® Snapdragon™ 855 Plus Mobile Platform
- TrueCut® Motion Grading Wins Hollywood Professional Association Engineering Excellence Award
- Black Shark launched Shark 2 Pro, its fourth gaming smartphone to incorporate Iris visual processor

President and CEO of Pixelworks, Todd DeBonis, commented, “Second quarter revenue was in-line with the midpoint of our guidance as all areas of the business performed as expected, with continued year-over-year revenue growth in both Mobile and Video Delivery. Gross margin expanded sequentially and year-over-year, and when combined with well-managed operating expenses, resulted in EPS for the quarter at the high-end of our guidance.

“We also made significant progress on advancing our sales pipeline and further cultivating the ecosystem to enable high-quality HDR video content on visual displays. As evidence of our continued progress, Black Shark recently launched the Shark 2 Pro smartphone, their fourth gaming device to incorporate our Iris visual processor. Additionally, ASUS launched the ROG Phone II in conjunction with Tencent Games and became the first smartphone to incorporate Pixelworks’ Soft Iris solution with advanced display calibration running on the Snapdragon™ 855 Plus mobile platform.”

DeBonis concluded, “As a result of our expanded portfolio of hardware and software-based solutions, we are extremely well positioned to increase adoption of our industry-leading visual display solutions across a growing number of new and existing mobile OEMs and streaming service providers. We anticipate further momentum in the coming quarters as new mobile devices are launched incorporating Pixelworks’ Iris visual processors, Soft Iris and support for our award winning TrueCut format - collectively contributing to a meaningful acceleration in Mobile growth as we approach the end of 2019 and well into 2020.”

### Second Quarter 2019 Financial Results

Revenue in the second quarter of 2019 was \$18.0 million, compared to \$16.6 million in the first quarter of 2019 and \$19.3 million in the second quarter of 2018. Year-over-year, second quarter revenue reflects continued growth in the Company’s Mobile and Video Delivery businesses, offset by below normal seasonal demand in the Projector market.

On a GAAP basis, gross profit margin in the second quarter of 2019 was 52.0%, compared to 50.9% in the first quarter of 2019 and 49.5% in the second quarter of 2018. On a non-GAAP basis, second quarter 2019 gross profit margin was 54.1%, compared to 53.3% in the first quarter of 2019 and 52.7% in the second quarter of 2018.

GAAP operating expenses in the second quarter of 2019 were \$11.7 million, compared to \$11.9 million in the first quarter of 2019 and \$12.0 million in the year-ago quarter. Non-GAAP operating expenses in the second quarter of 2019 were \$9.6 million, compared to \$10.3 million in the first quarter of 2019 and \$10.0 million in the year-ago quarter.

For the second quarter of 2019, the Company recorded a GAAP net loss of \$2.4 million, or (\$0.06) per share, compared to a GAAP net income of \$133,000, or \$0.00 per diluted share, in the first quarter of 2019, which included a net gain of \$3.9 million related to the sale of non-strategic patents. The Company recorded a GAAP net loss of \$2.4 million, or (\$0.07) per share, in the second quarter of 2018.

For the second quarter of 2019, the Company recorded a non-GAAP net loss of \$97,000, or (\$0.00) per share, compared to a non-GAAP net loss of \$1.5 million, or (\$0.04) per share, in the first quarter of 2019 and non-GAAP net income of \$31,000, or \$0.00 per diluted share, in the second quarter of 2018.

Adjusted EBITDA in the second quarter of 2019 was \$1.0 million, compared to (\$464,000) in the first quarter of 2019 and \$1.1 million in the second quarter of 2018.

## **Business Outlook**

For the third quarter of 2019, Pixelworks expects revenue to be in a range of between \$17.5 million and \$18.5 million, reflecting sequential and year-over-year growth in Mobile combined with lower than normal seasonal demand in the Video Delivery and Digital Projection markets. Additional guidance will be provided as part of the Company's earnings conference call.

## **Conference Call Information**

Pixelworks will host a conference call today, August 1, 2019, at 2:00 p.m. Pacific Time, which can be accessed by calling 1-877-359-9508 and using passcode 6687844. 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, August 8, 2019, and can be accessed by calling 1-855-859-2056 and using passcode 6687844.

## **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, 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 (expense) and other, net, income tax provision, 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 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, mobile wins and the timing thereof, growth in the mobile and video delivery markets, strategy, seasonality, and additional guidance, particularly as to revenue for the third 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			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
	2019	2019	2018	2019	2018
Revenue, net	\$ 18,027	\$ 16,648	\$ 19,251	\$ 34,675	\$ 34,543
Cost of revenue (1)	8,651	8,176	9,717	16,827	17,207
Gross profit	9,376	8,472	9,534	17,848	17,336
Operating expenses:					
Research and development (2)	6,364	6,472	6,423	12,836	10,886
Selling, general and administrative (3)	4,935	5,460	4,959	10,395	9,573
Restructuring	398	—	602	398	621
Total operating expenses	11,697	11,932	11,984	23,629	21,080
Loss from operations	(2,321)	(3,460)	(2,450)	(5,781)	(3,744)
Interest income and other, net (4)	104	96	40	200	1,177
Gain on sale of patents	—	3,905	—	3,905	—
Total other income, net	104	4,001	40	4,105	1,177
Income (loss) before income taxes	(2,217)	541	(2,410)	(1,676)	(2,567)
Provision for income taxes	231	408	32	639	308
Net income (loss)	\$ (2,448)	\$ 133	\$ (2,442)	\$ (2,315)	\$ (2,875)
Net income (loss) per share:					
Basic	\$ (0.06)	\$ 0.00	\$ (0.07)	\$ (0.06)	\$ (0.08)
Diluted	\$ (0.06)	\$ 0.00	\$ (0.07)	\$ (0.06)	\$ (0.08)
Weighted average shares outstanding:					
Basic	37,688	37,247	35,704	37,469	35,445
Diluted	37,688	38,692	35,704	37,469	35,445
(1) Includes:					
Amortization of acquired intangible assets	298	298	298	596	596
Stock-based compensation	83	95	78	178	144
Inventory step-up and backlog amortization	—	12	239	12	361
(2) Includes stock-based compensation	703	661	627	1,364	1,222
(3) Includes:					
Stock-based compensation	879	933	682	1,812	1,221
Amortization of acquired intangible assets	76	84	101	160	202
(4) 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			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
	2019	2019	2018	2019	2018
<b>Reconciliation of GAAP and non-GAAP gross profit</b>					
GAAP gross profit	\$ 9,376	\$ 8,472	\$ 9,534	\$ 17,848	\$ 17,336
Amortization of acquired intangible assets	298	298	298	596	596
Stock-based compensation	83	95	78	178	144
Inventory step-up and backlog amortization	—	12	239	12	361
Total reconciling items included in gross profit	381	405	615	786	1,101
Non-GAAP gross profit	<u>\$ 9,757</u>	<u>\$ 8,877</u>	<u>\$ 10,149</u>	<u>\$ 18,634</u>	<u>\$ 18,437</u>
Non-GAAP gross profit margin	<u>54.1%</u>	<u>53.3%</u>	<u>52.7%</u>	<u>53.7%</u>	<u>53.4%</u>
<b>Reconciliation of GAAP and non-GAAP operating expenses</b>					
GAAP operating expenses	\$ 11,697	\$ 11,932	\$ 11,984	\$ 23,629	\$ 21,080
Reconciling item included in research and development:					
Stock-based compensation	703	661	627	1,364	1,222
Reconciling items included in selling, general and administrative:					
Stock-based compensation	879	933	682	1,812	1,221
Amortization of acquired intangible assets	76	84	101	160	202
Restructuring	398	—	602	398	621
Total reconciling items included in operating expenses	2,056	1,678	2,012	3,734	3,266
Non-GAAP operating expenses	<u>\$ 9,641</u>	<u>\$ 10,254</u>	<u>\$ 9,972</u>	<u>\$ 19,895</u>	<u>\$ 17,814</u>
<b>Reconciliation of GAAP and non-GAAP net income (loss)</b>					
GAAP net income (loss)	\$ (2,448)	\$ 133	\$ (2,442)	\$ (2,315)	\$ (2,875)
Reconciling items included in gross profit	381	405	615	786	1,101
Reconciling items included in operating expenses	2,056	1,678	2,012	3,734	3,266
Reconciling items included in total other income, net	—	(3,905)	—	(3,905)	(1,203)
Tax effect of non-GAAP adjustments	(86)	219	(154)	133	(55)
Non-GAAP net income (loss)	<u>\$ (97)</u>	<u>\$ (1,470)</u>	<u>\$ 31</u>	<u>\$ (1,567)</u>	<u>\$ 234</u>
Non-GAAP net income (loss) per share:					
Basic	<u>\$ (0.00)</u>	<u>\$ (0.04)</u>	<u>\$ 0.00</u>	<u>\$ (0.04)</u>	<u>\$ 0.01</u>
Diluted	<u>\$ (0.00)</u>	<u>\$ (0.04)</u>	<u>\$ 0.00</u>	<u>\$ (0.04)</u>	<u>\$ 0.01</u>
Non-GAAP weighted average shares outstanding:					
Basic	<u>37,688</u>	<u>37,247</u>	<u>35,704</u>	<u>37,469</u>	<u>35,445</u>
Diluted	<u>37,688</u>	<u>37,247</u>	<u>37,369</u>	<u>37,469</u>	<u>37,372</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 EARNINGS PER SHARE**  
**(Figures may not sum due to rounding)**  
**(Unaudited)**

	Three Months Ended						Six Months Ended			
	June 30,		March 31,		June 30,		June 30,		June 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)	\$ 0.00	\$ 0.00	\$ (0.07)	\$ (0.07)	\$ (0.06)	\$ (0.06)	\$ (0.08)	\$ (0.08)
Reconciling items included in gross profit	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.03	0.03
Reconciling items included in operating expenses	0.05	0.05	0.05	0.04	0.06	0.05	0.10	0.10	0.09	0.09
Reconciling items included in total other income, net	—	—	(0.10)	(0.10)	—	—	(0.10)	(0.10)	(0.03)	(0.03)
Tax effect of non-GAAP adjustments	—	—	0.01	0.01	—	—	—	—	—	—
Non-GAAP net income (loss)	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ 0.01</u>	<u>\$ 0.01</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			Six Month Ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
	2019	2019	2018	2019	2018
<b>Reconciliation of GAAP and non-GAAP gross profit margin</b>					
GAAP gross profit margin	52.0%	50.9%	49.5%	51.5%	50.2%
Amortization of acquired intangible assets	1.7	1.8	1.5	1.7	1.7
Stock-based compensation	0.5	0.6	0.4	0.5	0.4
Inventory step-up and backlog amortization	—	0.1	1.2	0.0	1.0
Total reconciling items included in gross profit	2.1	2.4	3.2	2.3	3.2
Non-GAAP gross profit margin	54.1%	53.3%	52.7%	53.7%	53.4%

\*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			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
	2019	2019	2018	2019	2018
<b>Reconciliation of GAAP net income (loss) and adjusted EBITDA</b>					
GAAP net income (loss)	\$ (2,448)	\$ 133	\$ (2,442)	\$ (2,315)	\$ (2,875)
Stock-based compensation	1,665	1,689	1,387	3,354	2,587
Restructuring	398	—	602	398	621
Amortization of acquired intangible assets	374	382	399	756	798
Tax effect of non-GAAP adjustments	(86)	219	(154)	133	(55)
Gain on sale of patents	—	(3,905)	—	(3,905)	—
Inventory step-up and backlog amortization	—	12	239	12	361
Gain on debt extinguishment	—	—	—	—	(1,272)
Discount accretion on convertible debt fair value	—	—	—	—	69
Non-GAAP net income (loss)	\$ (97)	\$ (1,470)	\$ 31	\$ (1,567)	\$ 234
EBITDA adjustments:					
Depreciation and amortization	\$ 887	\$ 913	\$ 923	\$ 1,800	\$ 1,749
Non-GAAP interest expense (income) and other, net	(104)	(96)	(40)	(200)	26
Non-GAAP provision for income taxes	317	189	186	506	363
Adjusted EBITDA	\$ 1,003	\$ (464)	\$ 1,100	\$ 539	\$ 2,372

\*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)

	June 30, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,746	\$ 17,944
Short-term marketable securities	6,575	6,069
Accounts receivable, net	7,353	6,982
Inventories	2,842	2,954
Prepaid expenses and other current assets	2,303	1,494
Total current assets	35,819	35,443
Property and equipment, net	4,817	6,151
Operating lease right of use assets	5,173	—
Other assets, net	1,606	1,132
Acquired intangible assets, net	3,452	4,208
Goodwill	18,407	18,407
Total assets	\$ 69,274	\$ 65,341
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,183	\$ 2,116
Accrued liabilities and current portion of long-term liabilities	9,158	10,256
Current portion of income taxes payable	578	263
Total current liabilities	11,919	12,635
Long-term liabilities, net of current portion	674	1,017
Operating lease liabilities, net of current portion	3,595	—
Income taxes payable, net of current portion	2,335	2,299
Total liabilities	18,523	15,951
Shareholders' equity	50,751	49,390
Total liabilities and shareholders' equity	\$ 69,274	\$ 65,341

**Contacts:**

Investor Contact

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**Pixelworks, Inc. Q2 2019 Conference Call**  
**August 1, 2019**

**Operator**

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s second 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. Steve Moore.

**Steve Moore**

Good afternoon and thank you for joining us today. With me 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 our press release issued earlier today announcing the Company's financial results for the second 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, August 1, 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, 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.

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, Steve and good afternoon and welcome to everyone joining us on today's call.

As outlined in today's press release, we had a solid quarter with financial results that were in-line or better than our guidance. Second quarter revenue of \$18.0 million was at the midpoint of our guidance range, reflecting continued year-over-year growth in our Mobile and Video Delivery businesses. Gross margin expanded 80 basis point sequentially and 140 basis points year-over-year to 54.1%, and operating expense came in better than anticipated, resulting in breakeven adjusted EPS for the quarter - which was the high-end of our guidance.

During the quarter, we continued to execute well across all areas of the business. As I've emphasized on previous calls, the team's priority and focus continue to be on advancing our growth initiative in Mobile while maintaining our position in Projector and Video Delivery.

Customers have responded positively to Pixelworks' expanded portfolio of visual processing solutions. Our product portfolio for mobile devices now includes multiple Iris visual processors with distinctive feature sets and at different but compelling price points, as well as our software-only, Soft Iris solutions. This expanded portfolio provides us with greater flexibility to meet specific customers' needs and requirements in addition to expanding the total addressable market.

Looking more specifically at our Mobile business during the second quarter. Revenue grew year-over-year for the sixth consecutive quarter, and for the first half of 2019, mobile revenue increased more than 100% over first half of last year. In addition to the wins we've announced on recently launched smartphones incorporating both our Iris visual processors and our newly introduced Soft Iris solutions, we continued to actively sample production volume of our 5<sup>th</sup> generation Iris visual processor to a targeted group of mobile OEMs. One of these engagements is a close collaboration with a tier 1 OEM customer targeting a launch before year-end.

To briefly highlight our most recent announced wins. Earlier this week, Black Shark introduced its newest gaming phone, the Shark 2 Pro, which is the fourth Black Shark device to include our Iris visual processor. This flagship smartphone also leverages Pixelworks' True View auto-adaptive display capabilities, including our next-generation DC Dimming technology designed specifically to enhance visual and system performance for AMOLED displays. Built on Qualcomm's Snapdragon 855 Plus Mobile Platform, the Shark 2 Pro smartphone also embraces the full suite of visual enhancements provided by our Iris visual processor, including Pixelworks' industry-leading Motion Engine, MEMC, technology, Always-HDR mode that provides real-time SDR-to-HDR conversion as well as a combination of Picture Quality Enhancements and High-efficiency Display Calibration.

Also recently announced, ASUS launched its next-generation ROG Phone II in conjunction with Tencent Games. The ROG II is the first smartphone to utilize our recently introduced Soft Iris technology running on Qualcomm's flagship Snapdragon 855 and 855 Plus Mobile Platform. Leveraging our Soft Iris solution, the ROG II smartphone features industry-leading color calibration and HDR tone mapping.

As a reminder, we introduced Soft Iris in March as part of our announced cooperative agreement with Qualcomm to provide smartphone OEMs with a seamless solution to implement Pixelworks' visual enhancement technology on mobile devices based on the Snapdragon 855 platform. This first win and commercial launch of a smartphone incorporating Soft Iris in less than 5 months is a significant accomplishment and a testament to the team's commitment to advancing our mobile growth initiatives.

As we discussed on last quarter's conference call, I want to re-emphasize that Soft Iris provides only a sub-set of the visual processing enhancement offered by our Iris processors. Additionally, our Soft Iris solution requires an existing high-quality display pipeline - and currently, that high-quality display pipeline is exclusively available on Qualcomm's flagship Snapdragon 855 platform. These two distinguishing factors are important, because they demonstrate why Soft Iris is complementary to our Iris family of mobile solutions and expands our total mobile TAM versus cannibalizing our Iris visual processors.

Turning to an update on TrueCut, our innovative end-to-end solution for cinematic motion and HDR that we introduced in early Q2. As a result of close and ongoing collaboration with our lead customer YouKu, today our TrueCut solution is now enabling what's arguably the single most comprehensive ecosystem for the creation, delivery and viewing of high-quality HDR video on mobile devices in China.

The following metrics demonstrate our significant early progress on extending TrueCut's reach since our introduction of this innovative video delivery platform in April: as of quarter-end, there were over 2,500 hours of video content available in TrueCut format, and we expanded the number of TrueCut enabled smartphones to over 70 existing models from 6 different mobile OEMs, making TrueCut content available to over 100 million mobile device users.

As part of our previously announced agreement, YouKu is committed to remastering a significant percentage of its existing library as well as developing new high-quality HDR content mastered in original TrueCut format. Concurrently, Pixelworks is committed to qualifying additional existing mobile devices to enable streaming of high-quality HDR video content exclusively through the YouKu app. We are also increasingly focused on direct engagements with mobile and TV OEMs to offer TrueCut certification on their next-generation devices. As part of our broader TrueCut licensing model, these entirely independent and device-specific certifications enable TrueCut-quality content to be experienced on the device across all True-cut enabled content as opposed to only allowing content to be viewed via the YouKu app.

Although our early focus has primarily been on smartphones and mobile video ecosystems, TrueCut was fundamentally designed to expand the boundaries for high-quality cinematic motion and HDR content creation, while also maintaining the content creator's original intent - regardless of the display on which it's viewed. As such, TrueCut's value proposition and total market opportunity extends beyond mobile to include home entertainment systems and cinematic theaters, as well as the associated software tools used for content creation/mastering. And on a related note, I want to take this opportunity to acknowledge our team following the recently announced Hollywood Professional Association's Engineering Excellence Award for Pixelworks' TrueCut Motion Grading tools. This prestigious and merit-based award is a testament to the impressive technical capabilities of the Pixelworks team.

Turning to our Video Delivery business -- we recorded another solid quarter, and although revenue from Video Delivery moderated slightly from Q1, revenue grew more than 70% year-over-year. Our Video Delivery revenue during the first half of this year and back-half of 2018 has largely been driven by demand for our highly-integrated and low-power XCode family of processors utilized in ADSB-compatible in-home media devices in Japan. More specifically, early-adopter demand for our Japanese customers' set-top-box converter products was a key contributor to several consecutive quarters of year-over-year growth.

As anticipated and indicated on our last call, demand began to subside in Q2 and has now meaningfully shifted following this initial ramp - from higher volume set-top-box converter devices toward our leading Japanese customer's advanced personal video recorders, or PVRs. Although they represent lower unit volumes due to their significantly higher price, these 4K PVR devices typically incorporate two or more XCode processors compared to converter boxes that utilize a single-chip solution.

While we anticipate continued steady demand for our XCode decoder and transcoder solutions on existing 4K PVRs designs, this will be more than offset in Q3 by a steep decline in end market demand for set-top-box converter devices. Looking out beyond Q3, as the price of both ADSB-compatible converter boxes and PVRs come down over time and additional high-quality broadcast content becomes available, we remain well positioned with key customers to benefit from a combination of renewed market demand and incremental market share gains.

Touching briefly on Digital Projector, the business performed as expected during the second quarter with revenue growing just over 20% sequentially, yet down year-over-year as we came off of a seasonally lower Q1 that was also further weakened by the inventory correction discussed last quarter.

As our projector customers successfully worked down inventory at their fiscal-year end in March, channel inventories began to normalize in the second quarter. However, consistent with our expectations and commentary earlier in the year, the macroeconomic backdrop, particularly in China, has continued to soften the profile of end market demand in the projector market.

As a result and combined with our large co-development customer's anticipated transition to our next-generation SoC beginning in late 2019, we continue to expect lower than normal seasonal demand in our Digital Projector business.

### **Concluding Remarks**

To close out my opening remarks, I first want to reiterate the team's strong execution as well as emphasize our focus on meaningfully advancing our mobile initiatives. Our expanded portfolio of hardware and software-based visual processing solutions has helped to advance a number of existing engagements, while also accelerating new mobile engagement opportunities.

In order to deliver on the opportunities in our pipeline, we are consistently up-leveling the quality of our engagements and prioritizing those with the highest probable return on our sales efforts and engineering resources. This includes placing increased priority on strategic platform engagements that offer the potential for Iris solutions to be designed-in to multiple models and on multiple generations. Another benefit of these larger platform engagements is the opportunity to negotiate and leverage co-marketing resources and the marketing budgets of strategic customers and partners.

As we consider the progress we've made to-date, we are very pleased with the depth of our current pipeline of engagements. We are ramping our hiring for program support and are focused on the execution of active programs. We believe that if successful these programs will reach a relevant inflection point as we approach year-end, resulting in meaningful acceleration of mobile revenue exiting 2019 and extending well into 2020.

With that I'll turn the call over to Steve for a more detailed review of our second quarter financial results and guidance for the third quarter.



**Steve Moore**

Thank you, Todd.

Revenue for the second quarter of 2019 was \$18.0 million, compared to \$16.6 million in the first quarter of 2019 and revenue of \$19.3 million in the second quarter of 2018. Revenue for the second quarter of 2019 reflects continued growth in the Company's Mobile and Video Delivery businesses, offset by below normal seasonal demand in the Digital Projector market.

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

Revenue from Digital Projector was approximately \$13.6 million.

Video Delivery revenue was approximately \$3.6 million.

And revenue from Mobile was approximately \$820,000.

Non-GAAP gross profit margin was 54.1% in the second quarter of 2019, compared to 53.3% in the first quarter and 52.7% in the second quarter of 2018.

Non-GAAP operating expenses were \$9.6 million in the second quarter of 2019, compared to \$10.3 million in the first quarter of 2019 and \$10.0 million in the second quarter of 2018.

Adjusted EBITDA was positive \$1.0 million for the second quarter of 2019, compared to a negative \$464,000 in the first quarter of 2019 and positive \$1.1 million in the second quarter of 2018. A reconciliation of adjusted EBITDA to GAAP net income/loss may be found in today's press release.

We reported a non-GAAP net loss of \$97,000, or breakeven on a per share basis, in the second quarter of 2019, compared to a non-GAAP net loss of \$1.5 million, or loss of 4 cents per share, in the prior quarter, and non-GAAP net income of \$31,000, or breakeven on a per diluted share basis, in the second quarter of 2018.

Moving to the balance sheet, we ended the second quarter with cash, cash equivalents and short-term investments of approximately \$23.3 million, a decrease of approximately \$700,000 from year-end 2018.

Other balance sheet metrics include day's sales outstanding of 37 days at quarter-end, compared with 32 days at the end of the first quarter. Inventory turns during the second quarter of 2019 were 11.0 times, compared to 10.1 times in the prior quarter.

Our guidance for the third quarter of 2019 is as follows:

We expect revenue to be in a range of between \$17.5 million and \$18.5 million, primarily reflecting sequential and year-over-year growth in our Mobile business combined with lower than normal seasonal demand in the Digital Projection market.

We expect non-GAAP gross profit margin of between 53% and 55%.

For operating expenses, we expect the third quarter to range between \$ 9.5 million and \$10.5 million on a non-GAAP basis.

And finally, we expect third quarter non-GAAP EPS to be in the range of between earnings of 1 cents and a loss 3 cents loss per share.

With that, we will now open the call for questions.