

**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): July 19, 2012

**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.)

**224 Airport Parkway, Suite 400**  
**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))
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**Item 2.02 Results of Operations and Financial Condition.**

On July 19, 2012, Pixelworks, Inc. (the "Company") issued a press release announcing financial results for the three and six month periods ended June 30, 2012 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 July 19, 2012 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.

Exhibit 99.1 Press Release issued by Pixelworks, Inc. dated July 19, 2012.

Exhibit 99.2 Pixelworks, Inc. Second Quarter Results Conference Call Script dated July 19, 2012.

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**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: July 19, 2012

/s/ Steven L. Moore

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



## Pixelworks Reports Second Quarter 2012 Financial Results

**SAN JOSE, Calif., July 19, 2012** -- Pixelworks, Inc. (NASDAQ:PXLW), an innovative provider of powerful video and pixel processing technology, today announced financial results for the second quarter ended June 30, 2012.

Second quarter 2012 revenue was \$15.5 million, compared to \$14.3 million reported in the prior quarter and \$15.7 million in the second quarter of 2011. The 8.4% sequential increase in revenue was driven by improvement in demand for the Company's products sold in the digital projection and advanced TV markets. Second quarter revenue also included higher licensing revenue compared to the previous quarter.

On a GAAP basis, gross profit margin in the second quarter of 2012 was 49.3%, compared to 54.5% in the first quarter and 47.3% in the second quarter of 2011. The sequential decline in gross profit was primarily driven by a shift in product mix within both the digital projector and advanced TV end markets, partially offset by higher licensing revenue recognized during the second quarter of 2012. Second quarter GAAP operating expenses were \$8.5 million, compared to \$9.1 million in the previous quarter and \$9.2 million in the second quarter of 2011. For the second quarter of 2012, the Company recorded a GAAP net loss of \$1.1 million, or \$0.06 per share, compared to a GAAP net loss of \$0.6 million, or \$0.04 per share, in the first quarter and a GAAP net loss of \$2.1 million, or \$0.13 per share, in the second quarter of 2011.

On a non-GAAP basis, second quarter gross profit margin was 50.6%, compared to 55.7% in the first quarter and 48.3% in the second quarter of 2011. Second quarter operating expenses on a non-GAAP basis were \$8.1 million, compared to \$8.6 million in the prior quarter and \$8.7 million in the second quarter of 2011. On a non-GAAP basis, net loss during the second quarter was \$0.3 million, or \$0.02 per share, compared with a net loss of \$0.1 million, or \$0.01 per share, in the first quarter and a net loss of \$1.4 million, or \$0.09 per share, in the second quarter of 2011.

“Revenue for the quarter came in at the high end of our guidance range driven by the ramping of our new Topaz family of products for the projector market and significant year over year increase in sales of our advanced TV solutions,” said Bruce Walicek, President and CEO of Pixelworks, “During the quarter Pixelworks continued to demonstrate its display technology leadership through key engagements with major customers and partners.”

The Company will discuss the details of its business outlook for the third quarter of 2012 during its conference call scheduled for today, July 19, 2012, at 2:00 p.m. Pacific Time.

### Conference Call Information

Pixelworks will host a conference call today at 2:00 p.m. Pacific Time, which can be accessed by calling 866-831-6224 and using passcode 18720064. 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 30 days. A replay of the conference call will also be available through Thursday, July 26, 2012, and can be accessed by calling 888-286-8010 and using passcode 87552817.

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## **About Pixelworks, Inc.**

Pixelworks, headquartered in San Jose, California, is an innovative designer, developer and marketer of video and pixel processing technology, semiconductors and software for high-end digital video applications. At design centers in Shanghai and San Jose, Pixelworks engineers 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](http://www.pixelworks.com).

Note: Pixelworks and the Pixelworks logo are registered trademarks of Pixelworks, Inc.

## **Non-GAAP Financial Measures**

*This earnings release makes reference to non-GAAP gross profit margins, non-GAAP operating expenses, non-GAAP net loss and non-GAAP net loss per share which excludes stock-based compensation expense, gain on sale of patents, gain on the sale of marketable securities and additional amortization of a non-cancelable prepaid royalty, all of which are required under GAAP. The press release also reconciles GAAP net loss and adjusted EBITDA which Pixelworks defines as GAAP net income (loss) before interest expense and other, net, income tax provision, depreciation and amortization, as well as the specific items listed above. The Company believes these non-GAAP measures provide a meaningful perspective on the Company's core operating results and underlying cash flow dynamics, but cautions investors to consider these measures in addition to, not as a substitute for, its consolidated financial results as presented in accordance with GAAP. A reconciliation between GAAP and non-GAAP financial measures is included in this earnings release which is available in the investor relations section of the Company's website.*

## **Safe Harbor Statement**

*This release contains statements, including, without limitation, the statements in Bruce Walicek's quote that are 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. All statements other than statements of historical fact are forward-looking statements for purposes of this release, including any projections of revenue or other financial items or any statements regarding the plans and objectives of management for future operations. Such statements are based on management's current expectations, estimates and projections about the Company's business. These statements are not guarantees of future performance and involve numerous risks, uncertainties and assumptions that are difficult to predict. Actual results could vary materially from those contained in forward looking statements due to many factors, including, without limitation: our ability to deliver new products in a timely fashion; our new product yield rates; changes in estimated product costs; product mix; supply of products from third-party foundries; failure or difficulty in achieving design wins; timely customer transition to new product designs; competitive factors, such as rival chip architectures, introduction or traction by competing designs, or pricing pressures; risks related to licensing our intellectual property; the success of our products in expanded markets; current global economic challenges; levels of inventory at distributors and customers; changes in the digital display and projection markets; changes in customer ordering patterns or lead times; seasonality in the consumer electronics market; our efforts to achieve profitability from operations; insufficient, excess or obsolete inventory and variations in inventory valuation; the outcome of any litigation related to our intellectual property rights; and our lower cash position as a result of our debt repurchases. More information regarding potential factors that could affect the Company's financial results and could cause actual results to differ materially is included from time to time in the Company's Securities and Exchange Commission filings, including our Annual Report on Form 10-K for the year ended December 31, 2011 and subsequent SEC filings.*

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

- Financial Tables Follow -

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

	Three Months Ended			Six Months Ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenue, net	\$ 15,524	\$ 14,330	\$ 15,690	\$ 29,854	\$ 30,390
Cost of revenue (1)	7,865	6,521	8,271	14,386	16,399
Gross profit	7,659	7,809	7,419	15,468	13,991
Operating expenses:					
Research and development (2)	4,715	5,093	5,554	9,808	11,549
Selling, general and administrative (3)	3,792	4,019	3,657	7,811	7,491
Total operating expenses	8,507	9,112	9,211	17,619	19,040
Loss from operations	(848)	(1,303)	(1,792)	(2,151)	(5,049)
Interest expense and other, net	(101)	(98)	(140)	(199)	(306)
Gain on sale of patents	—	—	—	—	1,600
Gain on sale of marketable securities	—	—	—	—	264
Total other income (expense), net	(101)	(98)	(140)	(199)	1,558
Loss before income taxes	(949)	(1,401)	(1,932)	(2,350)	(3,491)
Provision (benefit) for income taxes	150	(763)	126	(613)	35
Net loss	\$ (1,099)	\$ (638)	\$ (2,058)	\$ (1,737)	\$ (3,526)
Net loss per share - basic and diluted	\$ (0.06)	\$ (0.04)	\$ (0.13)	\$ (0.10)	\$ (0.24)
Weighted average shares outstanding - basic and diluted	18,238	18,029	15,839	18,133	14,710

(1) Includes:

Additional amortization of non-cancelable prepaid royalty	\$ 156	\$ 132	\$ 132	\$ 288	\$ 218
Stock-based compensation	37	39	32	76	59
(2) Includes stock-based compensation	183	222	209	405	410
(3) Includes stock-based compensation	256	241	264	497	511

**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, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>Reconciliation of GAAP and non-GAAP gross profit</b>					
GAAP gross profit	\$ 7,659	\$ 7,809	\$ 7,419	\$ 15,468	\$ 13,991
Additional amortization of non-cancelable prepaid royalty	156	132	132	288	218
Stock-based compensation	37	39	32	76	59
Total reconciling items included in cost of revenue	193	171	164	364	277
Non-GAAP gross profit	<u>\$ 7,852</u>	<u>\$ 7,980</u>	<u>\$ 7,583</u>	<u>\$ 15,832</u>	<u>\$ 14,268</u>
Non-GAAP gross profit margin	<u>50.6%</u>	<u>55.7%</u>	<u>48.3%</u>	<u>53.0%</u>	<u>46.9%</u>
<b>Reconciliation of GAAP and non-GAAP operating expenses</b>					
GAAP operating expenses	\$ 8,507	\$ 9,112	\$ 9,211	\$ 17,619	\$ 19,040
Reconciling item included in research and development:					
Stock-based compensation	183	222	209	405	410
Reconciling item included in selling, general and administrative:					
Stock-based compensation	256	241	264	497	511
Total reconciling items included in operating expenses	439	463	473	902	921
Non-GAAP operating expenses	<u>\$ 8,068</u>	<u>\$ 8,649</u>	<u>\$ 8,738</u>	<u>\$ 16,717</u>	<u>\$ 18,119</u>
<b>Reconciliation of GAAP and non-GAAP net loss</b>					
GAAP net loss	\$ (1,099)	\$ (638)	\$ (2,058)	\$ (1,737)	\$ (3,526)
Reconciling items included in cost of revenue	193	171	164	364	277
Reconciling items included in operating expenses	439	463	473	902	921
Gain on sale of patents	—	—	—	—	(1,600)
Gain on sale of marketable securities	—	—	—	—	(264)
Tax effect of non-GAAP adjustments	136	(144)	(5)	(8)	(9)
Non-GAAP net loss	<u>\$ (331)</u>	<u>\$ (148)</u>	<u>\$ (1,426)</u>	<u>\$ (479)</u>	<u>\$ (4,201)</u>
Non-GAAP net loss per share - basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.09)</u>	<u>\$ (0.03)</u>	<u>\$ (0.29)</u>
Non-GAAP weighted average shares outstanding - basic and diluted	<u>18,238</u>	<u>18,029</u>	<u>15,839</u>	<u>18,133</u>	<u>14,710</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 gain on the sale of patents, gain on the sale of marketable securities, stock-based compensation expense and additional amortization of a non-cancelable prepaid royalty. Pixelworks' management believes the presentation of non-GAAP gross profit, non-GAAP operating expenses, non-GAAP net loss and non-GAAP net loss per share provides useful information to investors regarding Pixelworks' results of operations by allowing investors to better evaluate underlying cash flow dynamics. Pixelworks' management also uses each of these non-GAAP measures internally to better evaluate underlying cash flow dynamics. Pixelworks, however, cautions investors to consider these non-GAAP financial measures in addition to, and not as a substitute for, our GAAP financial measures.

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

	Three Months Ended			Six Months Ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>Reconciliation of GAAP net loss and adjusted EBITDA</b>					
GAAP net loss	\$ (1,099)	\$ (638)	\$ (2,058)	\$ (1,737)	\$ (3,526)
Stock-based compensation	476	502	505	978	980
Additional amortization of non-cancelable prepaid royalty	156	132	132	288	218
Gain on sale of patents	—	—	—	—	(1,600)
Gain on sale of marketable securities	—	—	—	—	(264)
Tax effect of non-GAAP adjustments	136	(144)	(5)	(8)	(9)
Non-GAAP net loss	\$ (331)	\$ (148)	\$ (1,426)	\$ (479)	\$ (4,201)
<b>EBITDA adjustments:</b>					
Depreciation and amortization	\$ 1,176	\$ 1,172	\$ 1,256	\$ 2,348	\$ 2,510
Interest expense and other, net	101	98	140	199	306
Non-GAAP provision (benefit) for income taxes	14	(619)	131	(605)	44
Adjusted EBITDA	<u>\$ 960</u>	<u>\$ 503</u>	<u>\$ 101</u>	<u>\$ 1,463</u>	<u>\$ (1,341)</u>

\* Adjusted EBITDA differs from GAAP net loss due to the exclusion of gain on the sale of patents, gain on the sale of marketable securities, stock-based compensation expense, additional amortization of a non-cancelable prepaid royalty, interest expense and other, net, income tax provision (benefit) and depreciation and amortization. Pixelworks' management believes the presentation of adjusted EBITDA provides useful information to investors regarding Pixelworks' results of operations by allowing investors to better evaluate underlying cash flow dynamics and core operating results and are used by Pixelworks' management for these purposes. Pixelworks, however, cautions investors to consider these non-GAAP financial measures in addition to, and not as a substitute for, our GAAP financial measures.



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

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,097	\$ 15,092
Accounts receivable, net	5,271	4,557
Inventories	4,163	4,107
Prepaid expenses and other current assets	5,745	2,341
Total current assets	30,276	26,097
Property and equipment, net	5,987	7,366
Other assets, net	2,228	2,914
Total assets	\$ 38,491	\$ 36,377
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,655	\$ 4,428
Accrued liabilities and current portion of long-term liabilities	12,404	8,247
Current portion of income taxes payable	176	212
Total current liabilities	17,235	12,887
Long-term liabilities, net of current portion	1,639	2,467
Income taxes payable, net of current portion	2,421	3,223
Total liabilities	21,295	18,577
Shareholders' equity	17,196	17,800
Total liabilities and shareholders' equity	\$ 38,491	\$ 36,377

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**Pixelworks, Inc. Q2 2012 Conference Call  
July 19, 2012**

**Steven Moore - CFO**

Good afternoon and thank you for joining us. This is Steve Moore, Chief Financial Officer of Pixelworks. With me today is Bruce Walicek, 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 ended June 30, 2012.

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, July 19, 2012, 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, 2011, 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 loss, earnings per share and net loss per share. These non-GAAP measures exclude stock-based compensation expense, gain on sale of patents, gain on sale of marketable securities, and additional amortization of a prepaid royalty. 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 loss and GAAP net loss to adjusted EBITDA, which provide additional details.

Bruce will begin today's call with a strategic update on the business, after which I will review our second quarter financial results and discuss our outlook for the third quarter of 2012.

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## **Bruce Walicek - CEO**

Thanks Steve. Good afternoon everyone and thank you for taking the time to join us today. I will start by making a few comments and observations about our 2nd quarter 2012, and then Steve will follow with details on our financial results and outlook for Q3.

### **Q2 12 Recap**

- Q2 was an outstanding quarter on many fronts, as revenues were up 8% sequentially, coming in at \$15.5M, which was at the high end of the range of guidance we outlooked on our Q1 2012 conference call.
- The Quarter was positively impacted by the ramping into production of our new TOPAZ family of Projector chips and by the continuing execution and recognition of a license of our current generation video technology for the TV market, to one of our industry partners,
- Also in Q2, we achieved another key milestone as we won a significant co-development project with a major customer to develop a highly integrated next generation chip that will result in significant revenue impact in 2014 and beyond.
- This engagement is a significant positive for PXLW and reinforces Pixelworks' market leadership position in video.
- In both of these engagements, Pixelworks was selected because of our industry leading display technology, recognized leadership in video quality, and world class execution capability.
- Overall TV/Panel products came in at 28% of revenues and were up 166% year over year and 6% sequentially, driven by volume production of our PA Series products, and by the recognition of the 2<sup>nd</sup> phase of the license mentioned above.
- Projector products came in at 65% of revenues and were up 25% sequentially, reflecting the production ramp of Topaz products, and improving order patterns noted on our Q1 conference call.
- Overall book to bill was much greater than one, as order patterns continued strong throughout the quarter, driven by new products ramping, resulting in visibility greater than normal going into Q3.
- Non-GAAP gross margin came in above the range of guidance at 50.6% and combined with below the range operating expenses of \$8.1M, resulted in positive EBITDA for the quarter and cash generation from operations of \$4.1M, a significant up-tick from Q1.

### **Products**

- On the Product front, In our TV/Panel Product Line:
  - Our current generation PA Series products, continued to experience good design win traction at Tier 1 customers in smart and advanced TV applications.
  - In particular, the PA138, which is targeted for advanced high end systems is finding traction in the 1<sup>st</sup> wave of 4Kx2K Ultra Definition Systems.
  - We expect to see the first wave of 4Kx2K flagship model high end TVs from Tier 1 customers introduced this year, powered by up to 4 PXLW PA138s.
  - These products will be in the most advanced systems available at the apex of the market, which validates PXLW's industry leadership position in advanced video technology.
  - Early this quarter we will sample the PA168 which is targeted for High Resolution TVs, Panels, Monitors, and Projectors, which solidifies Pixelworks leadership position in the market. We believe we are the leader in this market and expect multiple Tier 1 engagements for the PA168 in 2012.
  - The PA168 is our 6th generation device.
  - And it provides industry leading performance for high resolutions systems, full 3D and 2D->3D support, and Multiview capability which enables emerging Glasses free 3D products, all in an expandable architecture.
  - PXLW is early in the trend to the next generation of higher resolutions and resolutions are increasing in displays everywhere, not only in large screens, but in smaller ones as well.
  - A good example of this trend, is the IPAD3 Retina display, which at 2Kx1K resolution is greater than today's High Definition Displays.
  - Video is increasingly the killer app, as consumption rises across all screens, small and large alike.
-

- The visual quality problems of Large Screens are migrating to small screens as video consumption grows and the visual user experience is increasingly the product differentiator.
- As the leader in creating the highest quality, visual user experience, these trends are increasing the value proposition of Pixelworks technology.

In our Digital Projection product line:

- During the quarter, we ramped the PWC878, the 2nd member of the Topaz product line into volume production. It is the Industry's first cost-effective 3D display processor that is specifically designed for the business, education, and mainstream home theater projector markets.
- This quarter we will continue to expand the Topaz family of products by introducing the LH version (PWC868LH) of the Topaz Lite series, which includes networking features for the value segment, which is the fastest growing part of the projector market.
- Topaz products are in mass production and went into high volume manufacturing during the quarter at a Tier 1 customer and we expect more Tier 1 customers to ramp production in 2012.
- In Q3 we will release our next generation of software, the Pixelworks Networked Display Software Suite v2.4, which enables the advanced features of the Topaz platform and will include mobile connectivity capability supporting such applications as Officeviewer and iPresenter.
- The Topaz and Topaz Lite family of products covers the full range of the projector market, from entry level 2D education and business projectors for the value segment of the market, to high end 3D home theater systems.
- At Infocomm in June, Pixelworks released our reference design for advanced 3D, DLP and 3LCD, projectors based on the PW980 & PA136 and this solution is receiving outstanding acceptance at Tier 1 customers, especially in the DLP market.
- We continue to experience strong design win momentum for the TOPAZ family and during the quarter we received additional design commitments from Tier 1 3LCD and DLP customers.

## Closing

In closing:

- Overall Q2 was a great quarter of accomplishment as:
  - We posted a solid quarter of performance, with strong bookings and cash generation, driven by the ramping of new products, especially our new Topaz family, as well as a return to normalized ordering patterns.
  - We experienced good design win traction for our PA series family and are leading the industry with our PA138 in 1<sup>st</sup> wave of 4Kx2K Ultra Definition TVs, and will solidify our position in this market with the delivery of the PA168 early this quarter.
  - We ramped the Topaz PWC878 into volume production, as well as introduced Topaz lite for the value segment of the projector market and experienced outstanding design wins momentum for our Topaz family.
  - We executed the 2<sup>nd</sup> phase of the license for our current generation PA series technology with our major industry partner.
  - And we achieved a significant milestone, as we engaged with a major customer for a joint development partnership that will result in significant revenues in 2014 and beyond.
  - The achievement of these key milestones demonstrates clear leadership and validates Pixelworks' leading position in video display technology .
  - Now, I'd now like to turn the call over to Steve to review the financial details of the quarter and our outlook for Q3 2012.
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## **Steven Moore - CFO**

Thank you, Bruce.

Revenue in the second quarter 2012 was \$15.5 million, compared to \$14.3 million in the first quarter and \$15.7 million in the year-ago quarter. Revenue increased 8.4% sequentially as a result of increased demand for our products sold in the digital projection and advanced TV markets.

The split of our second quarter revenue by market was:

65% digital projection,

28% TV and panel,

7% embedded video display

Licensing revenue during the quarter totaled approximately \$2.3 million, and was comprised of \$300,000 recorded in our digital projector market category and \$2 million related to advanced TV as part of our achievement of additional milestones according to the licensing agreements we have for our current generation technology.

Digital projection revenue, which includes sales targeted at the advanced digital projection market, increased by approximately \$2.1 million during the quarter to \$10.1 million. Projector revenue increased primarily due to ramping of our Topaz family and higher demand for other projector solutions as well as the recognition of licensing revenue.

TV and panel revenue, which includes sales targeted at the large screen flat panel display market, increased \$300K sequentially to approximately \$4.3 million in the second quarter as a result of increased demand for products at certain tier one TV OEMs. Both Q1 and Q2 2012 TV revenues include approximately \$2 million of licensing revenue.

Embedded video display revenue during the second quarter was approximately \$1.1 million.

Non-GAAP gross profit margin was 50.6% in the second quarter, compared to 55.7% in the first quarter and 48.3% in the second quarter of 2011. The sequential decrease in gross margin was effected by a shift in product mix within both our digital projector and advanced TV end markets. Also of note in Q2, we recorded approximately \$400,000 of costs related to our licensing agreements versus approximately \$100,000 in Q1. Additionally, during Q2, we initiated the end-of-life process for our PA 130 product and recorded a one-time cost for the mask set and a purchase commitment for in-process wafers.

As mentioned in the past, Pixelworks' gross margin is subject to variability based on changes in revenue levels, recognition of license revenue, product mix, startup costs, and the timing and execution of manufacturing ramps as well as other factors.

Non-GAAP operating expenses were \$8.1 million in the second quarter, compared to \$8.6 million in the first quarter and \$8.7 million during the year-ago quarter. Our operating expense levels continue to reflect our commitment to prudently manage expenses even though they will continue to vary based on the timing of future development activities.

Adjusted EBITDA was a positive \$960,000 in the second quarter, a sequential and year-over-year improvement compared to \$503,000 in the prior quarter and \$101,000 in the second quarter of 2011. A reconciliation of adjusted EBITDA to GAAP net loss may be found in today's press release.

On a non-GAAP basis we recorded a net loss of \$331,000, or a 2 cent loss per share, in the second quarter. This compares with a net loss in the first quarter of \$148,000, or a 1 cent loss per share and non-GAAP net loss of \$1.4 million, or 9 cent loss per share in the second quarter of 2011.

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Moving to the balance sheet, cash and marketable securities ended the quarter at approximately \$15.1 million, versus \$11.6 million at the end of the previous quarter. The nearly \$3.5 million increase in net cash was due primarily to generating approximately \$4.1 million from operating activities during the quarter reflecting the return to a more normal and linear revenue stream, including normalization of DSO and inventory levels. At quarter-end the Company had no long-term debt and a zero balance on its short-term line of credit.

Other balance sheet metrics include day sales outstanding which decreased to 31 days as of June 30, compared with 42 days at March 31. Inventory turns were 8.5 times in Q2 compared to 7.0 times during the first quarter.

#### Guidance

For the third quarter of 2012, we expect revenue to be in the range of \$16 million to \$18 million.

We expect gross profit margin for the third quarter to range between 47% to 49% on a non-GAAP basis and 46% to 48% on a GAAP basis.

We expect operating expenses in the third quarter to range between \$7.5 million and \$8.5 million on a non-GAAP basis, and \$8 million to \$9 million on a GAAP basis. Operating expenses in Q3, both on a non-GAAP and GAAP basis, will benefit from a credit to R&D expense related to a development agreement with a customer.

And finally, we expect non-GAAP third quarter 2012 results of between earnings per share of 8 cents and a net loss per share of 6 cents; and on a GAAP basis we expect results between earnings per share of 4 cent and a net loss per share of 9 cents.

That concludes my comments. We will now open the call to your questions.