

**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 29, 2020

PIXELWORKS, INC.

(Exact name of registrant as specified in its charter)

Oregon
(State or other jurisdiction
of incorporation)

000-30269
(Commission File Number)

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

**226 Airport Parkway, Suite 595
San Jose, CA 95110
(408) 200-9200**

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

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

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

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

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

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

Emerging growth company

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

Item 2.02 Results of Operations and Financial Condition.

On October 29, 2020, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and nine month periods ended September 30, 2020 and held a conference call to discuss the Company's financial results. The press release and conference call contain forward-looking statements regarding the Company, and include cautionary statements identifying important factors that could cause actual results to differ materially from those anticipated.

The press release issued October 29, 2020 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.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release issued by Pixelworks, Inc. dated October 29, 2020.
99.2	Pixelworks, Inc. Third Quarter Results Conference Call Script dated October 29, 2020.

SIGNATURE

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

PIXELWORKS, INC.
(Registrant)

Dated: October 29, 2020

/s/ Elias N. Nader

Elias N. Nader
*Vice President and Chief Financial
Officer*



Pixelworks Reports Third Quarter 2020 Financial Results

Executing on Strategic Growth Initiatives Despite Challenging Environment;
Mobile Revenue Increased Sequentially, Driven by Expanded Wins on Newly Launched Smartphones

SAN JOSE, Calif., October 29, 2020 – Pixelworks, Inc. (NASDAQ: PXLW), a leading provider of innovative video and display processing solutions, today announced financial results for the third quarter ended September 30, 2020.

Third Quarter and Recent Highlights

- Mobile revenue grew more than 230% sequentially, driven by increased shipments in support of a growing number of smartphones launched by new and existing mobile OEM customers
- GAAP gross margin was 48.5% and non-GAAP gross margin was 55.6%, reflecting sustained progress on product cost reduction initiatives and a favorable product mix
- Combination of new and existing Mobile OEM customers launch three new phones incorporating Pixelworks advanced visual processing technology, the ASUS ZenFone 7 flagship 5G smartphone, the Coolpad Legacy Brisa and the OnePlus 8T smartphone
- Formally launched and secured initial design-ins for sixth-generation mobile visual processor, the first Pixelworks visual processor to leverage innovative, low-power Artificial Intelligence (AI) technology
- Entered into securities purchase agreement with MTM-Xinhe Investment Limited, a consortium of strategic investors in China, to enhance mobile strategy and customer base in China
- Appointed Dr. Alan Zhou as Executive VP, President of China in support of strategic and mobile growth initiatives in Asia
- Ended the third quarter with \$16.8 million in cash, cash equivalents and short-term investments, with an additional \$6.6 million in cash from the MTM-Xinhe private placement investment anticipated to close in November 2020.

“Although the overall environment has remained challenging, particularly in our Projector and Video Delivery markets, customers’ order patterns began to stabilize during the third quarter in conjunction with early indications of a bottom in end market demand. Our previous actions to aggressively contain costs have enabled us to minimize cash burn, as we’ve continued to focus on and advance our growth initiatives in Mobile and for our TrueCut platform solutions,” stated Todd DeBonis, President and CEO of Pixelworks.

“Our Mobile business returned to sequential growth in the quarter, as we continued to expand the number of year-to-date wins on smartphones launched by a growing list of mobile OEM customers. We have also maintained a very healthy pipeline of engagements comprised of next-generation programs with existing customers as well as programs with multiple new customers, including a second tier-one mobile OEM. Additionally, we recently hired Dr. Alan Zhou as Executive VP, President of China as part of our effort to strengthen the strategic position of our mobile business and expand the capabilities of Pixelworks operations in China.

“While we anticipate the recovery in our mature markets to be gradual, we remain well positioned with a compelling portfolio of visual processing solutions to capitalize on the dominant market trends in mobile, as OEMs increasingly push to incorporate 5G, HDR, higher frame rates and superior gaming performance across multiple tiers of smartphones.”

Third Quarter 2020 Financial Results

Revenue in the third quarter of 2020 was \$8.2 million, compared to \$9.3 million in the second quarter of 2020 and revenue of \$18.1 million in the third quarter of 2019. The sequential and year-over-year decline in revenue reflected a combination of inventory corrections and the impact of the global pandemic on end market demand in the projector and video delivery market, partially offset by a sequential increase in shipments of visual processing solutions in the mobile market.

On a GAAP basis, gross profit margin in the third quarter of 2020 was 48.5%, compared to 54.6% in the second quarter of 2020 and 51.8% in the third quarter of 2019. Third quarter 2020 GAAP operating expenses were \$12.1 million, compared to operating expenses of \$11.5 million in the second quarter of 2020 and \$11.8 million in the year-ago quarter.

For the third quarter of 2020, the Company recorded a GAAP net loss of \$8.1 million, or (\$0.20) per share, compared to a GAAP net loss of \$6.6 million, or (\$0.17) per share, in the second quarter of 2020 and a GAAP net loss of \$2.3 million, or (\$0.06) per share, in the year-ago quarter.

On a non-GAAP basis, third quarter 2020 gross profit margin was 55.6%, compared to 59.2% in the second quarter of 2020 and 53.9% in the year-ago quarter. Third quarter 2020 non-GAAP operating expenses were \$8.9 million, compared to \$9.3 million in the second quarter of 2020 and \$10.3 million in the year-ago quarter.

For the third quarter of 2020, the Company recorded a non-GAAP net loss of \$4.5 million, or (\$0.11) per share, compared to a non-GAAP net loss of \$3.9 million, or (\$0.10) per share, in the second quarter of 2020 and a non-GAAP net loss of \$0.5 million or (\$0.01) per share, in the third quarter of 2019.

Adjusted EBITDA in the third quarter of 2020 was a negative \$3.5 million, compared to a negative \$2.9 million in the second quarter of 2020 and a positive \$0.5 million in the year-ago quarter.

Cash, cash equivalents and short-term investments were \$16.8 million in the current quarter versus \$21.4 million in the second quarter of 2020.

Business Outlook

The Company's current business outlook, including guidance for the fourth quarter of 2020, will be provided as part of the scheduled conference call.

Conference Call Information

Pixelworks will host a conference call today, October 29, 2020, at 2:00 p.m. Pacific Time, which can be accessed by calling 1-877-359-9508 and using passcode 5276154. A live audio webcast of the call can also be accessed by visiting the Company's investor page at www.pixelworks.com. For those unable to listen to the live webcast, it will be archived for approximately 90 days. A replay of the conference call will also be available through Wednesday, November 4, 2020, and can be accessed by calling 1-855-859-2056 and using passcode 5276154.

About Pixelworks, Inc.

Pixelworks provides industry-leading content creation, video delivery and display processing solutions and technology that enable highly authentic viewing experiences with superior visual quality, across all screens – from cinema to smartphone and beyond. The Company has a 20-year history of delivering image processing innovation to leading providers of 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.

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 exclude gain on sale of patents, inventory step-up and backlog amortization, amortization of acquired intangible assets, stock-based compensation expense, and restructuring expenses, 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 loss and adjusted EBITDA, which Pixelworks defines as GAAP net loss before interest income 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.

Because the Company's non-GAAP financial measures are not calculated in accordance with GAAP, they may not necessarily be comparable to similarly titled measures employed by other companies. These non-GAAP financial measures should not be considered in isolation or as a substitute for the comparable GAAP measures and should be read only in conjunction with the Company's consolidated financial results as presented in accordance with GAAP. A reconciliation between GAAP and non-GAAP financial measures is included in this earnings release which is available in the investor relations section of the Pixelworks' website.

Safe Harbor Statement

This release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements may be identified by use of terms such as "begin," "continue," "will," "expect," "believe," "anticipate" and similar terms or the negative of such terms, and include, without limitation, statements about the Company's digital projection, mobile and video delivery businesses, including market movement and demand, customer engagements, growth in the mobile market, strategy, and additional guidance, particularly as to the business outlook and current market environment and the impact of the COVID-19 pandemic on the same. 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 expanding 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; our ability to attract and retain key personnel; and the impact of the COVID-19 pandemic on our business and on our suppliers and customers. 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, 2019 as well as subsequent SEC filings.

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

[Financial Tables Follow]

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

	Three Months Ended			Nine Months Ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenue, net	\$ 8,190	\$ 9,253	\$ 18,057	\$ 31,217	\$ 52,732
Cost of revenue (1)	4,214	4,204	8,710	15,417	25,537
Gross profit	3,976	5,049	9,347	15,800	27,195
Operating expenses:					
Research and development (2)	6,062	6,314	6,458	18,643	19,294
Selling, general and administrative (3)	4,621	5,156	5,333	14,970	15,728
Restructuring	1,430	—	—	2,022	398
Total operating expenses	12,113	11,470	11,791	35,635	35,420
Loss from operations	(8,137)	(6,421)	(2,444)	(19,835)	(8,225)
Interest income (expense) and other, net	(28)	(24)	70	2	270
Gain on sale of patents	—	—	—	—	3,905
Total other income (expense), net	(28)	(24)	70	2	4,175
Loss before income taxes	(8,165)	(6,445)	(2,374)	(19,833)	(4,050)
Provision (benefit) for income taxes	(26)	107	(68)	257	571
Net loss	\$ (8,139)	\$ (6,552)	\$ (2,306)	\$ (20,090)	\$ (4,621)
Net loss per share - basic and diluted	\$ (0.20)	\$ (0.17)	\$ (0.06)	\$ (0.51)	\$ (0.12)
Weighted average shares outstanding - basic and diluted	40,766	39,444	38,086	39,697	37,677
(1) Includes:					
Amortization of acquired intangible assets	298	298	298	894	894
Restructuring	166	—	—	166	—
Stock-based compensation	117	127	89	345	267
Inventory step-up and backlog amortization	—	—	—	—	12
(2) Includes stock-based compensation	820	806	570	2,274	1,934
(3) Includes:					
Stock-based compensation	913	1,310	839	3,296	2,651
Amortization of acquired intangible assets	76	76	76	228	236

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

	Three Months Ended			Nine Months Ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	\$ 3,976	\$ 5,049	\$ 9,347	\$ 15,800	\$ 27,195
Amortization of acquired intangible assets	298	298	298	894	894
Restructuring	166	—	—	166	—
Stock-based compensation	117	127	89	345	267
Inventory step-up and backlog amortization	—	—	—	—	12
Total reconciling items included in gross profit	581	425	387	1,405	1,173
Non-GAAP gross profit	\$ 4,557	\$ 5,474	\$ 9,734	\$ 17,205	\$ 28,368
Non-GAAP gross profit margin	55.6 %	59.2 %	53.9 %	55.1 %	53.8 %
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	\$ 12,113	\$ 11,470	\$ 11,791	\$ 35,635	\$ 35,420
Reconciling item included in research and development:					
Stock-based compensation	820	806	570	2,274	1,934
Reconciling items included in selling, general and administrative:					
Stock-based compensation	913	1,310	839	3,296	2,651
Amortization of acquired intangible assets	76	76	76	228	236
Restructuring	1,430	—	—	2,022	398
Total reconciling items included in operating expenses	3,239	2,192	1,485	7,820	5,219
Non-GAAP operating expenses	\$ 8,874	\$ 9,278	\$ 10,306	\$ 27,815	\$ 30,201
Reconciliation of GAAP and non-GAAP net loss					
GAAP net loss	\$ (8,139)	\$ (6,552)	\$ (2,306)	\$ (20,090)	\$ (4,621)
Reconciling items included in gross profit	581	425	387	1,405	1,173
Reconciling items included in operating expenses	3,239	2,192	1,485	7,820	5,219
Reconciling items included in total other income, net	—	—	—	—	(3,905)
Tax effect of non-GAAP adjustments	(137)	18	(84)	(144)	49
Non-GAAP net loss	\$ (4,456)	\$ (3,917)	\$ (518)	\$ (11,009)	\$ (2,085)
Non-GAAP net loss per share - basic and diluted	\$ (0.11)	\$ (0.10)	\$ (0.01)	\$ (0.28)	\$ (0.06)
Non-GAAP weighted average shares outstanding - basic and diluted	40,766	39,444	38,086	39,697	37,677

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

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

	Three Months Ended						Nine Months Ended			
	September 30, 2020		June 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
	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
Reconciliation of GAAP and non-GAAP net loss										
GAAP net loss	\$ (0.20)	\$ (0.20)	\$ (0.17)	\$ (0.17)	\$ (0.06)	\$ (0.06)	\$ (0.51)	\$ (0.51)	\$ (0.12)	\$ (0.12)
Reconciling items included in gross profit	0.01	0.01	0.01	0.01	0.01	0.01	0.04	0.04	0.03	0.03
Reconciling items included in operating expenses	0.08	0.08	0.06	0.06	0.04	0.04	0.20	0.20	0.14	0.14
Reconciling items included in total other income, net	—	—	—	—	—	—	—	—	(0.10)	(0.10)
Tax effect of non-GAAP adjustments	—	—	—	—	—	—	—	—	—	—
Non-GAAP net loss	<u>\$ (0.11)</u>	<u>\$ (0.11)</u>	<u>\$ (0.10)</u>	<u>\$ (0.10)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.28)</u>	<u>\$ (0.28)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>

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

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

	Three Months Ended			Nine Months Ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Reconciliation of GAAP and non-GAAP gross profit margin					
GAAP gross profit margin	48.5 %	54.6 %	51.8 %	50.6 %	51.6 %
Amortization of acquired intangible assets	3.6	3.2	1.7	2.9	1.7
Restructuring	2.0	—	—	0.5	—
Stock-based compensation	1.4	1.4	0.5	1.1	0.5
Inventory step-up and backlog amortization	—	—	—	—	0.0
Total reconciling items included in gross profit	7.1	4.6	2.1	4.5	2.2
Non-GAAP gross profit margin	<u>55.6 %</u>	<u>59.2 %</u>	<u>53.9 %</u>	<u>55.1 %</u>	<u>53.8 %</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 FINANCIAL INFORMATION *
(In thousands)
(Unaudited)

	Three Months Ended			Nine Months Ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Reconciliation of GAAP net loss and adjusted EBITDA					
GAAP net loss	\$ (8,139)	\$ (6,552)	\$ (2,306)	\$ (20,090)	\$ (4,621)
Stock-based compensation	1,850	2,243	1,498	5,915	4,852
Restructuring	1,596	—	—	2,188	398
Amortization of acquired intangible assets	374	374	374	1,122	1,130
Tax effect of non-GAAP adjustments	(137)	18	(84)	(144)	49
Gain on sale of patents	—	—	—	—	(3,905)
Inventory step-up and backlog amortization	—	—	—	—	12
Non-GAAP net loss	<u>\$ (4,456)</u>	<u>\$ (3,917)</u>	<u>\$ (518)</u>	<u>\$ (11,009)</u>	<u>\$ (2,085)</u>
EBITDA adjustments:					
Depreciation and amortization	\$ 861	\$ 871	\$ 1,024	\$ 2,754	\$ 2,824
Non-GAAP interest expense (income) and other, net	28	24	(70)	(2)	(270)
Non-GAAP provision for income taxes	111	89	16	401	522
Adjusted EBITDA	<u>\$ (3,456)</u>	<u>\$ (2,933)</u>	<u>\$ 452</u>	<u>\$ (7,856)</u>	<u>\$ 991</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.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,062	\$ 7,257
Short-term marketable securities	735	6,975
Accounts receivable, net	5,417	10,915
Inventories	3,895	5,401
Prepaid expenses and other current assets	1,685	1,689
Total current assets	27,794	32,237
Property and equipment, net	5,631	4,608
Operating lease right of use assets	6,943	5,434
Other assets, net	1,187	1,267
Acquired intangible assets, net	1,581	2,704
Goodwill	18,407	18,407
Total assets	\$ 61,543	\$ 64,657
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 687	\$ 818
Accrued liabilities and current portion of long-term liabilities	9,649	8,692
Short-term line of credit	3,954	—
Current portion of income taxes payable	5	164
Total current liabilities	14,295	9,674
Long-term liabilities, net of current portion	1,982	982
Operating lease liabilities, net of current portion	5,304	4,212
Income taxes payable, net of current portion	2,368	2,260
Total liabilities	23,949	17,128
Shareholders' equity	37,594	47,529
Total liabilities and shareholders' equity	\$ 61,543	\$ 64,657

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Company Contact

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**Pixelworks, Inc. Q3 2020 Conference Call
October 29, 2020**

Operator

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s third quarter 2020 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, instructions will be given for the question-and-answer session. This conference call is being recorded for replay purposes. I would now like to turn the call over to Pixelworks' CFO, Mr. Elias Nader.

Elias Nader

Thank you. Good afternoon, everyone, and thank you for tuning-in to today's call. With me on the call and joining from China is Todd DeBonis, Pixelworks' President and CEO. The purpose of today's conference call is to supplement the information provided in Pixelworks' press release issued earlier today announcing the company's financial results for the third quarter of 2020.

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

All forward-looking statements are based on the company's beliefs as of today, Thursday, October 29, 2020. The company undertakes no obligation to update any such statements or 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, 2019, 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 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. Non-GAAP measures exclude gain on sale of patents, inventory step-up and backlog amortization, amortization of acquired intangible assets, stock-based compensation expense, and restructuring expense.

The company uses these non-GAAP measures internally to assess our operating performance. We believe these non-GAAP measures provide a meaningful perspective on our core operating results and underlying cash flow dynamics. But we caution investors to consider these measures in addition to, not as a substitute for, nor superior to the company's consolidated financial results as presented in accordance with GAAP.

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

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

Todd DeBonis

Thank you Elias and good afternoon to everyone participating on today's call. I'm joining you today from Shanghai. Even though it was a difficult journey during the pandemic and associated travel restrictions, the company is seeing increasing activity and opportunities for our technology, including multiple exciting and recently announced developments.

First, as announced last week we completed the agreement on a private placement to facilitate an investment by MTM-Xinhe Investment Limited in the amount of \$6.6 million. MTM is a China-based consortium comprised of strategic investors from the Chinese semiconductor and mobile eco-system with deep industry experience and expertise. The investment brings significant value to Pixelworks as we continue to prioritize China and Asia as key regions for growth opportunities and our future success. As a financially vested partner, MTM will contribute local resources and relationships that will enhance our ongoing strategic efforts.

Separately, we also recently appointed an Executive VP and President of Pixelworks China, Dr. Alan Zhou, who will oversee and drive expansion of our operations in the region. With over 30 years of experience in wireless communications, he

previously served in multiple roles at global companies such as Qualcomm, Agere Systems, Lucent Technologies and AT&T Bell Labs. Alan is a significant addition to our team and brings extensive China-based leadership to the Pixelworks organization.

In addition to supporting our growing customer engagements and organization in the region, both the appointment of Alan and MTM's investment strengthen our strategic position in China, as we execute on our mobile growth initiatives.

As outlined in today's press release, our Q3 results were in-line with our expectations and reflected the challenging environment's continued impact on end market demand, especially in our mature markets of Projector and Video Delivery. Although customers have continued to place orders, demand has continued to be weak as they attempt to navigate fluctuations in end market demand due to the pandemic. Our Mobile business saw sequential growth in the quarter as previous distributor inventory was worked-down and we made initial shipments in support of new phone launches. Notably, we sustained strong gross margin levels near the higher-end of our historical range, and our previous restructuring actions along with ongoing cost containment efforts have minimized our cash burn in recent quarters.

Although we don't expect a V-shaped recovery, we are beginning to see some signs of improvement in our mature markets. In Projector, demand appears to have bottomed during the third quarter. We've begun to see evidence of a gradual recovery in orders led by near-term improvement in developed markets. Customers have indicated that demand has remained more muted in emerging markets and is unlikely to meaningfully recover until mid-next year. As discussed on prior calls, effectively all Projector OEMs are responding to the lower total unit volumes by moving upstream to higher priced projectors with more advanced features. We are mirroring the direction of our customers in terms of pricing, and Pixelworks continues to be a key enabler for many of these advanced features. Overall, design activity has remained somewhat healthy across customers' next generation products, and we currently anticipate a small uptick in Projector revenue in the fourth quarter.

In Video Delivery, end demand in the Japanese consumer electronics market remained subdued through the end of the quarter and these customers have given limited clarity on the timing of expected recovery. In the U.S., we have seen increased customer activity on OTA streaming solutions. During the quarter, Sling launched AirTV Anywhere, its newest device to incorporate Pixelworks XCode for the transcoding of live local ATSC signals to high-quality digital video for viewing on almost any connected mobile or streaming media device. Unique to the AirTV Anywhere product, it includes a 1 TB hard drive with full digital DVR and is capable of delivering up to four simultaneous streams of OTA content to connected viewing devices both within and outside of the home. Additionally, unlike previous generations that were sold exclusively online, AirTV Anywhere is being carried on the trucks of Dish Authorized installers to provide consumers with the option of a professional onsite setup.

Turning to an update on TrueCut. Following a brief attempt at a partial reopening in the summer, most of the major studios in the U.S. remain closed due to COVID-related mandates. Although this has significantly curtailed filming, post production and in-person meetings in Hollywood, we have continued to advance numerous ongoing discussions and evaluations with prominent studios and streaming service providers. Recently, our team has successfully leveraged Pixelworks' newly opened office in Burbank, California to host private screenings and demonstrations with prospective partners and customers. As highlighted by a number of announced developments by industry leaders, the prevailing environment has significantly increased the importance of streaming and the delivery of content direct-to-consumers. TrueCut offers a truly unique way to differentiate the direct-to-consumer user experience – by providing a comprehensive solution for ensuring that the visual experience created in a professional screening room is replicated in consumers' living room, regardless of the TV or mobile device the content is watched on.

We also continue to have a number of advanced discussions underway on new TrueCut opportunities in China, where the government is pushing the broad/universal adoption of a new UHD standard that emphasizes both 4K and high frame rate video. With China being a mobile-first market, mobile streaming services and the prevalence of user-generated content have naturally become the leading drivers of this new UHD standard. Overall, while formal licensing engagements for our TrueCut solutions are taking longer to materialize we are continuing to make important progress.

Shifting to our Mobile business. As previously mentioned, we saw a return to sequential revenue growth in the third quarter and we continued to add to our growing list of mobile wins for the year. Since our last conference call, three new phones were launched by two existing OEMs and one first-time mobile customer.

In late August, ASUS launched its latest device to incorporate Pixelworks technology, the ZenFone 7 series flagship 5G smartphone. Utilizing a 6.67" Samsung OLED display with 90 Hz refresh rate, the ZenFone 7 leverages a series of Pixelworks visual processing technologies, including HDR tone mapping, high-efficiency color calibration and DC dimming to provide consumers with impressive display performance and a superior viewing experience.

Also during the quarter, Coolpad released its first-ever mobile device to feature Pixelworks' advanced visual processing, the Coolpad Legacy Brisa smartphone. Currently available exclusively through Boost Mobile, the Legacy Brisa brings true premium visual quality, including SDR-to-HDR conversion and enhanced color tuning and accuracy to consumers on a budget – notably, this well featured smartphone is currently priced below \$200.

Then most recently, OnePlus expanded its 8 series lineup introduced earlier in the year and again chose to incorporate Pixelworks technology in the newly launched OnePlus 8T. Building on the recognition garnered from the record breaking display performance enabled by Pixelworks in the OnePlus 8 Pro, the OnePlus 8T utilizes a dynamic 120 Hz AMOLED display coupled with a series of Pixelworks visual enhancement features, including our patented high-efficiency color calibration, flesh tone correction, flicker-free screen dimming and ultra-smooth 8K adaptive brightness.

In early September, we unveiled our sixth generation mobile visual processor – the first to incorporate low-power Artificial Intelligence or AI technology. The AI processing unit built into our i6 processor leverages Pixelworks' extensive mobile display and datasets to adaptively optimize overall visual quality and power efficiency by intelligently mapping feature sets and modes across the widest range of apps and use cases for both LCD and OLED displays. This dynamic optimization brings together numerous advanced features, such as upscaling the dynamic range of video and gaming content to the highest possible resolutions and refresh rates while simultaneously adjusting for optimal contrast, sharpness, brightness and color temperature of the display based on ambient lighting conditions, content attributes and display characteristics.

In addition to AI-based optimizations that provide the potential for accelerated backend development and reduced phone-specific customizations in the i6 processor, we've further enhanced Pixelworks' industry-leading color accuracy with display calibration processing that requires up to 40% lower power than our previous generation mid-range processor.

Our sixth generation visual processor was Pixelworks' first mobile chip to have secured a design-in before being taped out – in fact, we secured multiple design-ins across several different OEM customers prior to successfully taping out and sampling. We expect the first designs incorporating our i6 processor to be launched around year-end, and we are continuing to gain traction on an increasing number of customer programs planned over the coming year.

More broadly within Mobile, a number of third-party reviews of multiple previously launched smartphones that incorporate our technology have continued to validate the significant and differentiating value of Pixelworks visual processing. We are continuing to aggressively develop and introduce additional advanced capabilities as part of each new generation, while focusing heavily on incremental adoption across both existing and new mobile OEM customers. Several key market trends are strongly aligned to drive an increased need and adoption of our technology. The first is 5G, which enables the delivery of higher quality video content over a cellular connection. As OEMs aggressively push 5G capability down the price curve toward more premium and mid-tier devices, our value proposition becomes increasingly relevant on mainstream devices with the potential to ship substantially larger unit volumes. Another benefit of 5G is its extremely low-latency, which is particularly important for mobile gaming. In fact, we are continuing to see growing interest to utilize our technology to enable a visually superior gaming experience. Following our initial and ongoing success in dedicated gaming phones, we are observing an emerging trend by OEMs wanting to feature a stronger or marketable 'gaming use case' on more mainstream high-performance smartphones. Pixelworks' industry-leading MEMC enables exceptional performance for high frame rate gaming, while also having the ability to significantly reduce power consumption as compared to relying solely on the device's AP/GPU.

As evidenced by my temporary relocation and focused efforts here in China, we continue to be closely engaged with our current and prospective mobile customers. We have a very healthy pipeline of new programs comprised of next-generation programs with existing customers as well as active near-term programs with more than one new customer, including a second tier-one mobile OEM. We are also seeing improving backlog and forecasts from our mobile customers – we believe this uptick in demand is in response to improving end market demand and expected market share shifts among leading OEMs.

In closing, we are continuing to make tangible progress in our growth initiatives despite a challenging environment. Our team is critically focused on advancing a growing number of mobile and TrueCut engagements, while remaining well positioned to support current customers as end market demand recovers.

We continue to believe in the value proposition of Pixelworks' technology and our strategies to capitalize on secular market trends in our growth businesses. We expect the fourth quarter to mark the beginning of 'turning the corner' and reflect sequential improvement buoyed by recovering mobile demand.

With that I'll hand the call over to Elias to review the third quarter financials and provide our guidance for the fourth quarter.

Elias Nader

Thank you, Todd.

Revenue for the third quarter of 2020 was \$8.2 million, compared to \$9.3 million in the second quarter of 2020, and compared to revenue of \$18.1 million in third quarter of 2019. As Todd indicated in his opening remarks, third quarter 2020 revenue primarily reflected the inventory corrections in the digital projector and video delivery markets, compounded by lower end market demand resulting from the global pandemic across each of our target markets.

The breakdown of revenue in the third quarter was as follows:

- Revenue from Digital Projector was approximately \$4.9 million.
- Video Delivery revenue was approximately \$1.9 million.
- Revenue from Mobile was approximately \$1.4 million comprised largely of sales of our Iris visual processor and software solutions.

Non-GAAP gross profit margin equaled 55.6% in the third quarter of 2020, compared to 59.2% in the second quarter of 2020 and 53.9% in the third quarter of 2019. The year-over-year increase in gross margin primarily reflects our ongoing initiatives to drive product cost improvements, especially on newer products.

Non-GAAP operating expenses decreased to \$8.9 million in the third quarter of 2020, compared to \$9.3 million last quarter and \$10.3 million in the same period last year. The decline in operating expenses reflects a combination of our previously taken actions to reduce cash expenses as well as our ongoing cost containment efforts across the business.

Adjusted EBITDA for the third quarter of 2020 was a negative \$3.5 million, compared to a negative \$2.9 million in the second quarter of 2020 and a positive \$0.5 million in the third quarter of 2019.

On a non-GAAP basis, third quarter 2020 net loss was \$4.5 million, or loss of (\$0.11) cents per share, compared to a net loss of \$3.9 million, or loss of (\$0.10) cents per share, in the prior quarter, and a net loss of \$0.5 million, or loss of (\$0.01) cent per share, in the third quarter of 2019.

Moving to the balance sheet, we ended the third quarter of 2020 with cash, cash equivalents and short-term investments of approximately \$16.8 million, compared to approximately \$21.4 million at the end of the second quarter of 2020. The sequential decrease of approximately \$4.6 million reflected the net of approximately \$3.4 million in cash used for operating activities, \$1.9 million for capital expenditures and the repayment of approximately \$400,000 on the outstanding balance of our line of credit – partially offset by approximately \$1.2 million in net proceeds generated from the sale of stock through our ATM vehicle during the third quarter.

As discussed on our second quarter conference call, we implemented a restructuring plan to further reduce operating expenses and preserve cash. As a result, we recorded a one-time restructuring charge of approximately \$1.6 million in the third quarter, and we anticipate these actions to generate an incremental \$3.2 million in annualized cost savings beginning in the fourth quarter.

In terms of other balance sheet metrics for the third quarter, days sales outstanding were 60 days at quarter-end, which compared to 58 days at the end of the second quarter. Inventory turns was 3.3 times in the third quarter, up slightly from 3.1 times in the prior quarter.

Now turning to our guidance for the fourth quarter of 2020.

As previously indicated, while we believe the near-term environment is likely to remain challenging, with recent feedback from customers indicating that end market demand has begun to slowly turn the corner in our Projector and Video Delivery markets. Specific to our Mobile business, we anticipate another quarter of sequential growth in the fourth quarter, as we support a combination of existing smartphones wins and ramp increased shipments associated with customers' planned launches of new devices in the coming months.

Based on recent order trends and our current backlog, we expect total revenue in the fourth quarter to range between \$8.5 million and \$10.5 million.

We expect non-GAAP gross profit margin in the fourth quarter of between 48% and 53%.

We anticipate operating expenses in the fourth quarter to range between \$9.0 million and \$10.0 million on a non-GAAP basis. Note, fourth quarter operating expenses will include the first full quarter of benefit from our restructuring plan announced earlier this year.

Finally, we expect fourth quarter non-GAAP EPS to be in the range of between a loss of (\$0.09) cents and a non-GAAP loss of (\$0.15) cents per share.

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