

PIXELWORKS, INC  
Form 10-Q  
August 08, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 000-30269

PIXELWORKS, INC.  
(Exact name of registrant as specified in its charter)

OREGON 91-1761992  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

224 Airport Parkway, Suite 400 95110  
San Jose, California  
(Address of principal executive offices) (Zip Code)  
(408) 200-9200  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of Common Stock outstanding as of July 31, 2013: 18,839,889



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FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013  
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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

## PIXELWORKS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$11,231	\$13,404
Accounts receivable, net	2,613	3,772
Inventories	1,909	2,702
Prepaid expenses and other current assets	1,516	1,727
Total current assets	17,269	21,605
Property and equipment, net	4,544	6,283
Other assets, net	1,562	1,653
Total assets	\$23,375	\$29,541
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$1,861	\$2,224
Accrued liabilities and current portion of long-term liabilities	9,065	8,666
Current portion of income taxes payable	183	207
Short-term line of credit	3,500	—
Total current liabilities	14,609	11,097
Long-term liabilities, net of current portion	912	1,445
Income taxes payable, net of current portion	2,071	2,331
Total liabilities	17,592	14,873
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock	—	—
Common stock	350,975	349,531
Accumulated other comprehensive loss	(113	) (113
Accumulated deficit	(345,079	) (334,750
Total shareholders' equity	5,783	14,668
Total liabilities and shareholders' equity	\$23,375	\$29,541
See accompanying notes to condensed consolidated financial statements.		

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## PIXELWORKS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue, net	\$9,554	\$15,524	\$17,825	\$29,854
Cost of revenue (1)	4,932	7,865	9,226	14,386
Gross profit	4,622	7,659	8,599	15,468
Operating expenses:				
Research and development (2)	6,010	4,715	11,894	9,808
Selling, general and administrative (3)	3,274	3,792	6,872	7,811
Total operating expenses	9,284	8,507	18,766	17,619
Loss from operations	(4,662)	(848)	(10,167)	(2,151)
Interest expense and other, net	(97)	(101)	(195)	(199)
Loss before income taxes	(4,759)	(949)	(10,362)	(2,350)
Provision (benefit) for income taxes	165	150	(33)	(613)
Net loss	\$(4,924)	\$(1,099)	\$(10,329)	\$(1,737)
Net loss per share - basic and diluted	\$(0.26)	\$(0.06)	\$(0.56)	\$(0.10)
Weighted average shares outstanding - basic and diluted	18,652	18,238	18,554	18,133

(1) Includes:

Additional amortization of non-cancelable prepaid royalty	\$98	\$156	\$189	\$288
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Stock-based compensation	31	37	71	76
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(2) Includes stock-based compensation	215	183	473	405
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(3) Includes stock-based compensation	354	256	740	497
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See accompanying notes to condensed consolidated financial statements.

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PIXELWORKS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)  
 (Unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$(10,329	) \$(1,737
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,139	2,348
Stock-based compensation	1,284	978
Reversal of uncertain tax positions	(452	) (1,044
Loss on asset disposal	—	187
Other	53	45
Changes in operating assets and liabilities:		
Accounts receivable, net	1,159	(714
Inventories	793	(56
Prepaid expenses and other current and long-term assets, net	477	(3,071
Accounts payable	(438	) 74
Accrued current and long-term liabilities	557	4,160
Income taxes payable	168	206
Net cash provided by (used in) operating activities	(4,589	) 1,376
Cash flows from investing activities:		
Purchases of property and equipment	(308	) (457
Purchases of other assets	(98	) —
Net cash used in investing activities	(406	) (457
Cash flows from financing activities:		
Proceeds from line of credit	3,500	—
Payments on asset financings	(838	) (1,069
Proceeds from issuances of common stock	160	155
Net cash provided by (used in) financing activities	2,822	(914
Net increase (decrease) in cash and cash equivalents	(2,173	) 5
Cash and cash equivalents, beginning of period	13,404	15,092
Cash and cash equivalents, end of period	\$11,231	\$15,097
See accompanying notes to condensed consolidated financial statements.		

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PIXELWORKS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

Nature of Business

We are an innovative designer, developer and marketer of video and pixel processing semiconductors, intellectual property and software for high-end digital video applications and hold 124 patents related to the visual display of digital image data. Our solutions enable manufacturers of digital display and projection devices, such as large-screen flat panel televisions, smaller high resolution screen displays, and digital front projectors, to manufacture their products with a consistently high level of video quality, regardless of the content's source, format or screen size. Our core technology leverages unique proprietary techniques for intelligently processing video signals from a variety of sources to ensure that all resulting images are optimized. Additionally, our products help our customers reduce costs and differentiate their display and projection devices, an important factor in industries that experience rapid innovation.

Our business also includes the license of technologies developed for our integrated circuit ("IC") semiconductor products to non-competitive customers and partners, as well as co-development arrangements with current or prospective IC customers. Pixelworks was founded in 1997 and is incorporated under the laws of the state of Oregon.

Condensed Consolidated Financial Statements

The financial information included herein for the three and six month periods ended June 30, 2013 and 2012 is prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and is unaudited. In our opinion, such information reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the Company's condensed consolidated financial statements for these interim periods. The financial information as of December 31, 2012 is derived from our audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2012, included in Item 8 of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 6, 2013, and should be read in conjunction with such consolidated financial statements.

The results of operations for the three and six month periods ended June 30, 2013 are not necessarily indicative of the results expected for the entire fiscal year ending December 31, 2013.

Comprehensive Loss

The Company reports comprehensive loss and its components following guidance set forth by the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification section 220-10, Comprehensive Income, which establishes standards for the reporting and display of comprehensive income or loss and its components in the financial statements. During the three and six month periods ended June 30, 2013 and 2012, aside from our net loss, there were no other items of comprehensive income or loss and therefore the Company has not included a schedule of comprehensive income or loss in our interim condensed consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and judgments that affect amounts reported in the financial statements and accompanying notes. Our significant estimates and judgments include those related to revenue recognition, product returns, warranty obligations, bad debts, inventories, property and equipment, impairment of long-lived assets, amortization of prepaid royalties, valuation of share-based payments, income taxes, litigation and other contingencies. The actual results experienced could differ materially from our estimates.

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## NOTE 2: BALANCE SHEET COMPONENTS

## Accounts Receivable, Net

Accounts receivable are recorded at invoiced amount and do not bear interest when recorded or accrue interest when past due. Accounts receivable are stated net of an allowance for doubtful accounts, which is maintained for estimated losses that may result from the inability of our customers to make required payments.

Accounts receivable consists of the following:

	June 30, 2013	December 31, 2012
Accounts receivable, gross	\$2,955	\$4,124
Less: allowance for doubtful accounts	(342	) (352
Accounts receivable, net	\$2,613	\$3,772

The following is the change in our allowance for doubtful accounts:

	Six Months Ended	
	June 30, 2013	2012
Balance at beginning of period	\$352	\$361
Additions charged (reductions credited)	(10	) 19
Balance at end of period	\$342	\$380

## Inventories

Inventories consist of finished goods and work-in-process, and are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market (net realizable value).

Inventories consist of the following:

	June 30, 2013	December 31, 2012
Finished goods	\$473	\$1,090
Work-in-process	1,436	1,612
Inventories	\$1,909	\$2,702

## Property and Equipment, Net

Property and equipment consists of the following:

	June 30, 2013	December 31, 2012
Gross carrying amount	\$21,840	\$21,451
Less: accumulated depreciation and amortization	(17,296	) (15,168
Property and equipment, net	\$4,544	\$6,283



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## Accrued Liabilities and Current Portion of Long-Term Liabilities

Accrued liabilities and current portion of long-term liabilities consist of the following:

	June 30, 2013	December 31, 2012
Accrued payroll and related liabilities	\$2,792	\$2,305
Current portion of accrued liabilities for asset financings	1,909	1,688
Accrued commissions and royalties	1,737	1,708
Accrued interest payable	953	808
Reserve for warranty returns	384	457
Other	1,290	1,700
Accrued liabilities and current portion of long-term liabilities	\$9,065	\$8,666

The following is the change in our reserve for warranty returns:

	Six Months Ended June 30,	
	2013	2012
Reserve for warranty returns:		
Balance at beginning of period	\$457	\$439
Provision	120	301
Charge-offs	(193	) (299
Balance at end of period	\$384	\$441

## Short-Term Line of Credit

On December 21, 2010, we entered into a Loan and Security Agreement (the "Revolving Loan Agreement") with Silicon Valley Bank (the "Bank"). On December 14, 2012, we and the Bank entered into Amendment No. 1 to the Revolving Loan Agreement. The Revolving Loan Agreement, as amended, provides a secured working capital-based revolving line of credit (the "Revolving Line") in an aggregate amount of up to the lesser of (i) \$10,000, or (ii) \$1,000 plus 80% of eligible domestic accounts receivable and certain foreign accounts receivable. In addition, the Revolving Loan Agreement, as amended, also provides for non-formula advances of up to \$10,000 which may be made solely during the last five business days of any fiscal month or quarter and which must be repaid by the Company on or before the fifth business day after the applicable fiscal month or quarter end. Due to their repayment terms, non-formula advances do not provide the Company with usable liquidity.

The Revolving Loan Agreement, as amended, contains customary affirmative and negative covenants as well as customary events of default. The occurrence of an event of default could result in the acceleration of the Company's obligations under the Revolving Loan Agreement, as amended, and an increase to the applicable interest rate, and would permit the Bank to exercise remedies with respect to its security interest. As of June 30, 2013, we were in compliance with all of the terms of the Revolving Loan Agreement, as amended.

Short-term borrowings outstanding under the Revolving Line as of June 30, 2013 consisted of a non-formula advance of \$3,500 which was repaid within required terms. The interest rate on short-term borrowings outstanding as of June 30, 2013 was 3.5%. As of December 31, 2012, we had no outstanding borrowings under the Revolving Line.

## NOTE 3: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Three levels of inputs may be used to measure fair value:

Level 1: Valuations based on quoted prices in active markets for identical assets and liabilities.

Level 2: Valuations based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations based on unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

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The following table presents information about our assets measured at fair value on a recurring basis in the condensed consolidated balance sheets as of June 30, 2013 and December 31, 2012:

	Level 1	Level 2	Level 3	Total
As of June 30, 2013:				
Money market funds	\$10,857	\$—	\$—	\$10,857