

PIXELWORKS INC
Form 10-Q/A
August 19, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended June 30, 2003

OR

**o 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

(State or other jurisdiction of incorporation)

91-1761992

(I.R.S. Employer Identification No.)

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

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

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 last 90 days. Yes ý No o

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

Number of shares of Common Stock outstanding as of July 31, 2003: 44,609,617

PIXELWORKS, INC.

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EXPLANATORY NOTE

THIS AMENDMENT ON FORM 10-Q/A IS BEING FILED TO INCLUDE THE INFORMATION REQUIRED BY ITEM 4 OF PART II OF FORM 10-Q. FOR THE CONVEINANCE OF THE READER, WE HAVE INCLUDED OUR ENTIRE QUARTERLY REPORT ON FORM 10-Q.

PART 1 - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****PIXELWORKS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)**

	June 30, 2003	December 31, 2002
	(Unaudited)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 88,760	\$ 62,152
Short-term marketable securities	13,051	24,915
Accounts receivable, net	10,230	10,421
Inventories, net	9,722	6,788
Prepaid expenses and other current assets	4,215	3,896
Total current assets	125,978	108,172
Long-term marketable securities	4,089	14,500
Property and equipment, net	8,502	9,073
Goodwill	82,548	82,548
Acquired intangible assets	5,133	5,882
Other assets	6,518	7,037
Total assets	\$ 232,768	\$ 227,212
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 7,030	\$ 5,084
Accrued liabilities and other liabilities	9,154	7,312
Total current liabilities	16,184	12,396
Shareholders' equity:		
Common stock	289,986	287,566
Shares exchangeable into common stock	8,119	10,491
Deferred stock compensation	(1,350)	(2,402)

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Accumulated deficit	(80,171)	(80,839)
Total shareholders' equity	216,584	214,816
Total liabilities and shareholders' equity	\$ 232,768	\$ 227,212

The accompanying notes are an integral part of these condensed consolidated financial statements.

PIXELWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Revenue	\$ 32,559	\$ 24,644	\$ 64,564	\$ 46,649
Cost of revenue (inclusive of amortization of deferred stock compensation of \$2, \$5, \$5 and \$11 for the three and six months ended June 30, 2003 and 2002, respectively)	17,880	12,266	35,172	22,810
Gross profit	14,679	12,378	29,392	23,839
Operating expenses:				
Research and development(1)	6,250	5,275	12,344	10,727
Selling, general and administrative(2)	6,093	5,839	12,134	11,027
Amortization of assembled workforce	242		485	
In-process research and development expense				4,200
Amortization of deferred stock compensation	226	170	388	1,191
Merger-related expenses	1,398		2,977	
Total operating expenses	14,209	11,284	28,328	27,145
Income (loss) from operations	470	1,094	1,064	(3,306)
Interest income	305	617	690	1,292
Interest expense	(4)	(23)	(10)	(54)
Interest income, net	301	594	680	1,238
Income (loss) before income taxes	771	1,688	1,744	(2,068)
Provision for income taxes	351	327	1,076	478
Net income (loss)	\$ 420	\$ 1,361	\$ 668	\$ (2,546)
Net income (loss) per share:				
Basic and diluted	\$ 0.01	\$ 0.03	\$ 0.01	\$ (0.06)

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Weighted average shares used in computing net income (loss) per share:				
Basic	45,184	42,804	45,106	42,613
Diluted	46,390	44,298	46,364	42,613

Amount excludes amortization of deferred stock compensation of:				
(1) Research and development	\$ 126	\$ 42	\$ 436	\$ 790
(2) Selling, general and administrative	100	128	(48)	401

The accompanying notes are an integral part of these condensed consolidated financial statements.

PIXELWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	\$ 668	\$ (2,546)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,137	2,781
Loss on disposal of assets		87
Amortization of assembled workforce	485	
Amortization of developed technology	264	220
Amortization of deferred stock compensation	393	1,202
In-process research and development expense		4,200
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	191	(1,608)
Inventories	(2,934)	(54)
Prepaid expenses and other current and long-term assets	(190)	(1,729)
Accounts payable	1,946	(969)
Accrued liabilities	1,992	(1,166)
Net cash provided by operating activities	5,952	418
Cash flows from investing activities:		
Purchases of property and equipment	(2,023)	(3,450)
Purchases of other assets and investments	(153)	(912)
Acquisition, net of cash acquired		(1,541)
Purchase of marketable securities	(16,025)	(21,880)
Maturities of marketable securities	38,300	27,025
Net cash provided by (used in) investing activities	20,099	(758)
Cash flows from financing activities:		
Payments on long-term debt	(150)	(394)
Proceeds from issuances of common stock	707	806
Net cash provided by financing activities	557	412
Increase in cash and cash equivalents	26,608	72
Cash and cash equivalents at beginning of period	62,152	53,288

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Cash and cash equivalents at end of period	\$	88,760	\$	53,360
Supplemental disclosure of cash flow information:				
Interest paid	\$	9	\$	53
Taxes paid		256		35
Issuance of stock for acquisition of business	\$		\$	20,114

The accompanying notes are an integral part of these condensed consolidated financial statements.

PIXELWORKS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except per share data)

Note 1: Basis of Presentation

The financial information included herein for the three and six months ended June 30, 2003 and 2002 is unaudited; however, such information reflects all adjustments consisting only of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The results of operations for the three and six months ended June 30, 2003 are not necessarily indicative of the results expected for the entire fiscal year ending December 31, 2003.

These financial statements have been prepared by Pixelworks, Inc. (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations, although the Company believes the disclosures provided are adequate to prevent the information presented from being misleading.

This report on Form 10-Q/A for the quarter ended June 30, 2003, should be read in conjunction with the Company's Annual Report on Form 10-K/A for the year ended December 31, 2002 filed on May 30, 2003. Portions of the accompanying financial statements are derived from the audited year-end financial statements of the Company for the year ended December 31, 2002.

Stock Compensation

Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, defines a fair value based method of accounting for an employee stock option or similar instrument. SFAS No. 123 allows an entity to continue to measure compensation cost using the intrinsic value based method of accounting prescribed by APB Opinion No. 25 (Opinion 25), *Accounting for Stock Issued to Employees*. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. Entities electing to continue applying the accounting treatment described in Opinion 25 must make pro forma disclosures of net income and, if presented, earnings per share, as if the fair value based method had been applied. Pixelworks has elected to continue to apply the accounting prescribed in Opinion 25 and to make the disclosures required under SFAS No. 123.

Pixelworks accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force consensus on Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods or Services*. There have been no equity instruments issued to non-employees during the periods presented.

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The fair value of the options granted during the three and six months ended June 30, 2003 and 2002 was estimated at the date of grant using the Black-Scholes option pricing model and the following weighted average assumptions:

Stock Option Plans:	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Risk free interest rate	2.49%	2.78%	2.89%	2.78%
Expected dividend yield	0%	0%	0%	0%
Expected life - years	5.5	5.5	5.5	5.5
Volatility	110%	115%	113%	115%

Employee Stock Purchase Plan (ESPP):	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Risk free interest rate	1.91%	1.89%	1.84%	4.32%
Expected dividend yield	0%	0%	0%	0%
Expected life - years	1.5	0.5	1.2	1.0
Volatility	105%	90%	101%	