

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Revenue	\$ 41,315	\$ 48,509	\$ 81,576	\$ 93,779
Cost of revenue (1)	25,113	25,477	48,456	47,360
Gross profit	16,202	23,032	33,120	46,419
Operating expenses:				
Research and development	11,571	7,953	21,013	15,657
Selling, general and administrative	6,900	6,056	13,968	11,530
Stock-based compensation and amortization of purchased intangible assets (2)	385	213	522	498
Total operating expenses	18,856	14,222	35,503	27,685
Income (loss) from operations	(2,654)	8,810	(2,383)	18,734
Interest income	1,693	528	3,408	764
Interest expense	(660)	(294)	(1,317)	(295)
Realized loss on sale of marketable securities	(779)	-	(779)	-
Amortization of debt issuance costs	(178)	(115)	(355)	(115)
Interest and other income, net	76	119	957	354
Income (loss) before income taxes	(2,578)	8,929	(1,426)	19,088
Provision for (recovery of) income taxes	(303)	3,170	13	6,776
Net income (loss)	\$ (2,275)	\$ 5,759	\$ (1,439)	\$ 12,312
Net income (loss) per share:				
Basic	\$ (0.05)	\$ 0.12	\$ (0.03)	\$ 0.26
Diluted	\$ (0.05)	\$ 0.12	\$ (0.03)	\$ 0.25
Weighted average shares outstanding:				
Basic	47,101	46,636	47,064	46,479
Diluted	47,101	51,194	47,064	49,658
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(1) Includes amortization of:				
Acquired developed technology	\$ 439	\$ 132	\$ 571	\$ 264
Acquired inventory mark-up	85	-	85	-
Acquired backlog	19	-	19	-
Deferred stock-based compensation	11	-	11	-
(2) Consists of amortization of:				
Deferred stock-based compensation	208	91	224	255
Acquired assembled workforce	122	122	243	243
Acquired customer relationships	47	-	47	-
Acquired trademark	8	-	8	-

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Revenue	\$ 41,315	\$ 48,509	\$ 81,576	\$ 93,779
Cost of revenue	24,559	25,345	47,770	47,096
Pro forma gross profit	16,756	23,164	33,806	46,683
Operating expenses:				
Research and development	11,571	7,953	21,013	15,657
Selling, general and administrative	6,900	6,056	13,968	11,530
Total operating expenses	18,471	14,009	34,981	27,187
Pro forma income (loss) from operations	(1,715)	9,155	(1,175)	19,496
Interest income	1,693	528	3,408	764
Interest expense	(660)	(294)	(1,317)	(295)
Amortization of debt issuance costs	(178)	(115)	(355)	(115)
Interest income, net	855	119	1,736	354
Pro forma income (loss) before income taxes	(860)	9,274	561	19,850
Provision for income taxes	783	3,170	1,099	6,776
Pro forma net income (loss)	<u>\$ (1,643)</u>	<u>\$ 6,104</u>	<u>\$ (538)</u>	<u>\$ 13,074</u>
Pro forma net income (loss) per share:				
Basic	<u>\$ (0.03)</u>	<u>\$ 0.13</u>	<u>\$ (0.01)</u>	<u>\$ 0.28</u>
Diluted	<u>\$ (0.03)</u>	<u>\$ 0.12</u>	<u>\$ (0.01)</u>	<u>\$ 0.27</u>
Weighted average shares outstanding:				
Basic	<u>47,101</u>	<u>46,636</u>	<u>47,064</u>	<u>46,479</u>
Diluted	<u>47,101</u>	<u>51,194</u>	<u>47,064</u>	<u>49,658</u>

The above pro forma financial statements are presented for informational purposes only. Our presentation of pro forma financial information excludes non-cash expenses resulting from acquisitions and the issuance of stock options, as well as unusual or infrequent expenses that are not directly attributable to our ongoing operations and are expected to be incurred over a limited period of time. Because of these exclusions, our presentation is not in accordance with U.S. generally accepted accounting principles (GAAP). Additionally, our presentation of pro forma financial information may not be consistent with that of other companies.

We believe that the exclusion of non-cash charges may help the investor better understand our liquidity position and the use of tangible resources in our operations, and the exclusion of unusual or infrequent items provides an alternative measure which may help the investor evaluate our underlying operating performance. Pro forma information is not, and should not be considered, a substitute for financial information prepared in accordance with GAAP.

PIXELWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
RECONCILIATION OF GAAP TO PRO FORMA BASIS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30, 2005			Three Months Ended June 30, 2004		
	GAAP	Adjustments	Pro forma	GAAP	Adjustments	Pro forma
Revenue	\$ 41,315	\$ -	\$ 41,315	\$ 48,509	\$ -	\$ 48,509
Cost of revenue	25,113	(554) (1)	24,559	25,477	(132) (1)	25,345
Gross profit	16,202	554	16,756	23,032	132	23,164
Operating expenses:						
Research and development	11,571	-	11,571	7,953	-	7,953
Selling, general and administrative	6,900	-	6,900	6,056	-	6,056
Stock-based compensation and amortization of purchased intangible assets	385	(385) (2)	-	213	(213) (2)	-
Total operating expenses	18,856	(385)	18,471	14,222	(213)	14,009
Income (loss) from operations	(2,654)	939	(1,715)	8,810	345	9,155
Interest income	1,693	-	1,693	528	-	528
Interest expense	(660)	-	(660)	(294)	-	(294)
Realized loss on sale of marketable securities	(779)	779 (3)	-	-	-	-
Amortization of debt issuance costs	(178)	-	(178)	(115)	-	(115)
Interest and other income, net	76	779	855	119	-	119
Income (loss) before income taxes	(2,578)	1,718	(860)	8,929	345	9,274
Provision for (recovery of) income taxes	(303)	1,086 (4)	783	3,170	-	3,170
Net income (loss)	<u>\$ (2,275)</u>	<u>\$ 632</u>	<u>\$ (1,643)</u>	<u>\$ 5,759</u>	<u>\$ 345</u>	<u>\$ 6,104</u>
Net income (loss) per share:						
Basic	<u>\$ (0.05)</u>		<u>\$ (0.03)</u>	<u>\$ 0.12</u>		<u>\$ 0.13</u>
Diluted	<u>\$ (0.05)</u>		<u>\$ (0.03)</u>	<u>\$ 0.12</u>		<u>\$ 0.12</u>
Weighted average shares outstanding:						
Basic	<u>47,101</u>		<u>47,101</u>	<u>46,636</u>		<u>46,636</u>
Diluted	<u>47,101</u>		<u>47,101</u>	<u>51,194</u>		<u>51,194</u>

- (1) Non-cash expenses for the amortization of acquired developed technology, acquired inventory mark-up, acquired backlog and deferred stock-based compensation.
- (2) Non-cash expenses for the amortization of deferred stock-based compensation, acquired assembled workforce, acquired customer relationships and acquired trademark.
- (3) Realized loss associated with the sale of marketable securities to fund the Equator acquisition.
- (4) Adjustment to record the tax impact of the pro forma adjustments.

PIXELWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
RECONCILIATION OF GAAP TO PRO FORMA BASIS
(In thousands, except per share data)
(Unaudited)

	Six Months Ended June 30, 2005			Six Months Ended June 30, 2004		
	GAAP	Adjustments	Pro forma	GAAP	Adjustments	Pro forma
Revenue	\$ 81,576	\$ -	\$ 81,576	\$ 93,779	\$ -	\$ 93,779
Cost of revenue	48,456	(686) (1)	47,770	47,360	(264) (1)	47,096
Gross profit	33,120	686	33,806	46,419	264	46,683
Operating expenses:						
Research and development	21,013	-	21,013	15,657	-	15,657
Selling, general and administrative	13,968	-	13,968	11,530	-	11,530
Stock-based compensation and amortization of purchased intangible assets	522	(522) (2)	-	498	(498) (2)	-
Total operating expenses	35,503	(522)	34,981	27,685	(498)	27,187
Income (loss) from operations	(2,383)	1,208	(1,175)	18,734	762	19,496
Interest income	3,408	-	3,408	764	-	764
Interest expense	(1,317)	-	(1,317)	(295)	-	(295)
Realized loss on sale of marketable securities	(779)	779 (3)	-	-	-	-
Amortization of debt issuance costs	(355)	-	(355)	(115)	-	(115)
Interest and other income, net	957	779	1,736	354	-	354
Income (loss) before income taxes	(1,426)	1,987	561	19,088	762	19,850
Provision for income taxes	13	1,086 (4)	1,099	6,776	-	6,776
Net income (loss)	\$ (1,439)	\$ 901	\$ (538)	\$ 12,312	\$ 762	\$ 13,074
Net income (loss) per share:						
Basic	\$ (0.03)		\$ (0.01)	\$ 0.26		\$ 0.28
Diluted	\$ (0.03)		\$ (0.01)	\$ 0.25		\$ 0.27
Weighted average shares outstanding:						
Basic	47,064		47,064	46,479		46,479
Diluted	47,064		47,064	49,658		49,658

(1) Non-cash expenses for the amortization of acquired developed technology, acquired inventory mark-up, acquired backlog and deferred stock-based compensation.

(2) Non-cash expenses for the amortization of deferred stock-based compensation, acquired assembled workforce, acquired customer relationships and acquired trademark.

(3) Realized loss associated with the sale of marketable securities to fund the Equator acquisition.

(4) Adjustment to record the tax impact of the pro forma adjustments.

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

	<u>June 30,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 35,234	\$ 32,585
Short-term marketable securities	106,615	160,213
Accounts receivable, net	18,133	14,605
Inventories, net	25,000	18,575
Prepaid expenses and other current assets	7,190	4,856
Total current assets	<u>192,172</u>	<u>230,834</u>
Long-term marketable securities	20,831	79,483
Property and equipment, net	15,328	12,444
Other assets, net	13,799	8,101
Debt issuance costs, net	4,135	4,483
Deferred tax assets, net	28,591	4,868
Acquired intangible assets, net	42,632	2,520
Goodwill	120,603	80,836
Total assets	<u>\$ 438,091</u>	<u>\$ 423,569</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,526	\$ 5,946
Accrued liabilities and current portion of long-term liabilities	18,811	12,842
Income taxes payable	314	2,393
Total current liabilities	<u>26,651</u>	<u>21,181</u>
Long-term liabilities, net of current portion	3,674	365
Long-term debt	150,000	150,000
Total liabilities	<u>180,325</u>	<u>171,546</u>
Shareholders' equity	257,766	252,023
Total liabilities and shareholders' equity	<u>\$ 438,091</u>	<u>\$ 423,569</u>