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): November 7, 2017

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

OREGON	**000-30269**	**91-1761992**
(State or other jurisdiction of incorporation)	(Commission File Number)	(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))

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 November 7, 2017, Pixelworks, Inc. (the "Company") issued a press release announcing financial results for the three month and nine month periods ended September 30, 2017 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 November 7, 2017 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 No.	Description
99.1	Press Release issued by Pixelworks, Inc. dated November 7, 2017.
99.2	Pixelworks, Inc. Third Quarter Results Conference Call Script dated November 7, 2017.

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: November 7, 2017

/s/ Steven L. Moore

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

Exhibit 99.1

pixelworks®

Pixelworks Reports Third Quarter 2017 Financial Results

Revenue from Digital Projection Increases 39% Year-on-Year

SAN JOSE, Calif., November 7, 2017 - Pixelworks, Inc. (NASDAQ: PXLW), a leading provider of power efficient visual processing solutions, today announced financial results for the third quarter ended September 30, 2017.

Third Quarter and Recent Highlights

- Revenue of $18.8 million, included $2 million contribution from ViXS Systems
- Initiated sampling of 4th generation Iris processor to targeted mobile OEMs
- Streamlined organization expected to generate $4.0 million in annualized cost synergies beginning in the fourth quarter of 2017

For the third quarter 2017, revenue was $18.8 million, which included $2.0 million of revenue contribution from the ViXS video delivery business acquired in August. Revenue in the Company's core digital projection business grew 39% year-on-year in the third quarter of 2017. Revenue in the second quarter of 2017 was $20.7 million, which included $5.1 million of end-of-life (EOL) product revenue, and revenue was $13.7 million in the third quarter of 2016.

On a GAAP basis, gross profit margin in the third quarter of 2017 was 48.0%, compared to 54.1% in the second quarter of 2017 and 48.0% in the third quarter of 2016. Third quarter 2017 GAAP operating expenses were $13.4 million, compared to $9.2 million in the previous quarter and $7.5 million in the third quarter of 2016.

For the third quarter of 2017, GAAP net loss was $4.7 million, or ($0.14) per share, compared to GAAP net income of $1.3 million, or $0.04 per diluted share, in the second quarter of 2017 and GAAP net loss of $1.2 million, or ($0.04) per share, in the third quarter of 2016.

On a non-GAAP basis, third quarter 2017 gross profit margin was 54.9%, compared to 54.4% in the second quarter of 2017 and 48.6% in the third quarter of 2016. Third quarter 2017 operating expenses on a non-GAAP basis were $8.9 million, compared to $7.6 million in the previous quarter and $6.8 million in the third quarter of 2016.

For the third quarter of 2017, the Company recorded non-GAAP net income of $976,000, or $0.03 per diluted share, compared to non-GAAP net income of $3.2 million, or $0.10 per diluted share, in the second quarter of 2017 and a non-GAAP net loss of $438,000, or ($0.02) per share, in the third quarter of 2016. Adjusted EBITDA in the third quarter of 2017 was a positive $2.3 million, compared to a positive $4.7 million in the previous quarter and a positive $670,000 in the third quarter of 2016.

President and CEO of Pixelworks, Todd DeBonis, commented, "Third quarter revenue was at the high-end of guidance, as we continued to achieve strong year-over-year growth in our core digital projection business. Combined with our ongoing diligent management of expenses, third quarter operating results exceeded our guidance range. During the quarter, we also realized the first revenue contribution from our acquisition of ViXS. Additionally, we took actions to further streamline the entire organization following our acquisition to eliminate redundant and non-strategic expenses, resulting in significant annualized savings. In the mobile market, we continued to ship Iris to our lead mobile customer and began sampling our fourth generation mobile display processor to key OEMs.

"The market continues to move in the direction of Pixelworks' technology and offerings, as demand accelerates for enhanced picture quality, video-centric solutions, such as HDR. This favorable landscape has become readily apparent as part of our recent customer engagements for both the third and fourth generation of Iris, which we expect to ramp into meaningful volume production in mid-2018 in support of multiple new mobile OEM customers. In addition, we continue to expect the ViXS integration process to be completed by year-end, positioning the acquisition to be accretive in 2018 while also providing Pixelworks with significant revenue and operational synergies. We anticipate the adoption and ramp of both our mobile and OTA offerings will drive continued top-line growth and increased profitability."

Business Outlook

Pixelworks' expects revenue to be between $17.5 million and $18.5 million for the fourth quarter of 2017. Additional guidance will be provided as part of the earnings conference call.

Conference Call Information

Pixelworks will host a conference call today, November 7, at 2:00 p.m. Pacific Time, which can be accessed by calling 877-359-9508 and using passcode 1594592. A Web broadcast of the call can be accessed by visiting the Company's investor page at www.pixelworks.com. For those unable to listen to the live Web broadcast, it will be archived for approximately 30 days. A replay of the conference call will also be available through Tuesday, November 14, 2017, and can be accessed by calling 855-859-2056 and using passcode 1594592.

About Pixelworks, Inc.

Pixelworks creates, develops and markets high efficiency visual display processing and advanced video delivery solutions for the highest quality display and streaming applications. The Company enables worldwide manufacturers to provide leading edge consumer electronics and professional displays, as well as video delivery and streaming solutions. The company 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 income (loss) and non-GAAP net income (loss) per share, which exclude amortization of deferred revenue fair value adjustment, inventory step-up and backlog amortization, amortization of acquired intangible assets, acquisition and integration related costs, stock-based compensation expense, restructuring expenses, fair value adjustment on convertible debt conversion option, and discount accretion on convertible debt fair value, 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 income (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.

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 better assess the performance of Pixelworks' continuing businesses and to evaluate Pixelworks' future prospects. These non-GAAP measures, when reviewed together with the GAAP financial information, provide additional transparency and more complete 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.

In calculating the above non-GAAP results, management specifically adjusted for certain items related to the acquisition of ViXS Systems, Inc., including amortization of acquired intangible assets, amortization of inventory step up and deferred revenue both related to fair valuing the items, acquisition and integration related costs such as accounting and legal fees and CEO severance, restructuring expenses related to a reduction in workforce, accretion on convertible debt of ViXS and fair value adjustments on embedded derivative features of such convertible debt. Management considers these items as either limited in term or having no impact on Pixelworks' cash flows, and therefore has excluded such items to better facilitate a review of current operating performance and comparisons to our past operating performance.

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 by Mr. DeBonis related to the acquisition of ViXS including expected synergies, the integration process and timing, and that the ViXS transaction will be accretive in 2018, as well as statements about the Company's digital projection, mobile and OTA businesses, including market movement and demand, customer engagements, ramp of volume production and shipments, the business outlook for the remainder of 2017 and 2018, including revenue growth and profitability. 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: whether the Company will be able to implement the restructuring program as planned, whether the expected amount of the costs associated with the restructuring program will differ from or exceed the Company's estimates and whether the Company will be able to realize the full amount of estimated savings from the restructuring program or within the timeframe expected; our ability to execute on our strategy, including the integration of ViXS; competitive factors, such as rival chip architectures, introduction or traction by competing designs, or pricing pressures; the success of our products in expanded 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 and our ability to attract and retain key personnel. 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 our Annual Report on Form 10-K for the year ended December 31, 2016 as well as subsequent SEC filings.

The forward-looking statements contained in this release speak 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, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Revenue, net (1)	$ 18,758	$ 20,721	$ 13,656	$ 62,189	$ 37,403
Cost of revenue (2)	9,747	9,520	7,099	29,585	20,839
Gross profit	9,011	11,201	6,557	32,604	16,564
Operating expenses:					
Research and development (3)	5,325	4,501	4,442	14,732	14,621
Selling, general and administrative (4)	6,583	4,660	3,072	15,382	10,117
Restructuring	1,481	—	3	1,481	2,608
Total operating expenses	13,389	9,161	7,517	31,595	27,346
Income (loss) from operations	(4,378)	2,040	(960)	1,009	(10,782)
Interest expense and other, net (5)	(528)	(107)	(99)	(728)	(305)
Income (loss) before income taxes	(4,906)	1,933	(1,059)	281	(11,087)
Provision for income taxes	(200)	669	183	902	357
Net income (loss)	$ (4,706)	$ 1,264	$ (1,242)	$ (621)	$ (11,444)
Net income (loss) per share:					
Basic	$ (0.14)	$ 0.04	$ (0.04)	$ (0.02)	$ (0.41)
Diluted	$ (0.14)	$ 0.04	$ (0.04)	$ (0.02)	$ (0.41)
Weighted average shares outstanding:					
Basic	32,552	29,766	28,313	30,545	28,139
Diluted	32,552	31,974	28,313	30,545	28,139

(1) Includes amortization of deferred revenue fair value adjustment	$ 25	$ —	$ —	$ 25	$ —
(2) Includes:					
Inventory step-up and backlog amortization	1,016	—	—	1,016	—
Amortization of acquired intangible assets	199	—	—	199	—
Stock-based compensation	57	69	49	179	139
Restructuring	—	—	27	—	1,777
(3) Includes stock-based compensation	445	362	401	1,121	1,222
(4) Includes:					
Acquisition and integration	1,611	730	—	2,505	—
Stock-based compensation	855	519	334	1,796	495
Amortization of acquired intangible assets	67	—	—	67	—
(5) Includes:					
Fair value adjustment on convertible debt conversion option	122	—	—	122	—
Discount accretion on convertible debt fair value	72	—	—	72	—

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, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	$ 9,011	$ 11,201	$ 6,557	$ 32,604	$ 16,564
Inventory step-up and backlog amortization	1,016	—	—	1,016	—
Amortization of acquired intangible assets	199	—	—	199	—
Stock-based compensation	57	69	49	179	139
Amortization of deferred revenue fair value adjustment	25	—	—	25	—
Restructuring	—	—	27	—	1,777
Total reconciling items included in gross profit	1,297	69	76	1,419	1,916
Non-GAAP gross profit	$ 10,308	$ 11,270	$ 6,633	$ 34,023	$ 18,480
Non-GAAP gross profit margin	54.9%	54.4%	48.6%	54.7%	49.4%
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	$ 13,389	$ 9,161	$ 7,517	$ 31,595	$ 27,346
Reconciling item included in research and development:					
Stock-based compensation	445	362	401	1,121	1,222
Reconciling items included in selling, general and administrative:					
Acquisition and integration	1,611	730	—	2,505	—
Stock-based compensation	855	519	334	1,796	495
Amortization of acquired intangible assets	67	—	—	67	—
Restructuring	1,481	—	3	1,481	2,608
Total reconciling items included in operating expenses	4,459	1,611	738	6,970	4,325
Non-GAAP operating expenses	$ 8,930	$ 7,550	$ 6,779	$ 24,625	$ 23,021
Reconciliation of GAAP and non-GAAP net income (loss)					
GAAP net income (loss)	$ (4,706)	$ 1,264	$ (1,242)	$ (621)	$ (11,444)
Reconciling items included in gross profit	1,297	69	76	1,419	1,916
Reconciling items included in operating expenses	4,459	1,611	738	6,970	4,325
Reconciling items included in interest expense and other, net	194	—	—	194	—
Tax effect of non-GAAP adjustments	(268)	270	(10)	157	(8)
Non-GAAP net income (loss)	$ 976	$ 3,214	$ (438)	$ 8,119	$ (5,211)
Non-GAAP net income (loss) per share:					
Basic	$ 0.03	$ 0.11	$ (0.02)	$ 0.27	$ (0.19)
Diluted	$ 0.03	$ 0.10	$ (0.02)	$ 0.25	$ (0.19)
Non-GAAP weighted average shares outstanding:					
Basic	32,552	29,766	28,313	30,545	28,139
Diluted	34,656	31,974	28,313	32,632	28,139

*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, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Reconciliation of GAAP net income (loss) and adjusted EBITDA					
GAAP net income (loss)	$ (4,706)	$ 1,264	$ (1,242)	$ (621)	$ (11,444)
Acquisition and integration	1,611	730	—	2,505	—
Restructuring	1,481	—	30	1,481	4,385
Stock-based compensation	1,357	950	784	3,096	1,856
Inventory step-up and backlog amortization	1,016	—	—	1,016	—
Amortization of acquired intangible assets	266	—	—	266	—
Fair value adjustment on convertible debt conversion option	122	—	—	122	—
Discount accretion on convertible debt fair value	72	—	—	72	—
Amortization of deferred revenue fair value adjustment	25	—	—	25	—
Tax effect of non-GAAP adjustments	(268)	270	(10)	157	(8)
Non-GAAP net income (loss)	$ 976	$ 3,214	$ (438)	$ 8,119	$ (5,211)
EBITDA adjustments:					
Depreciation and amortization	$ 900	$ 975	$ 816	$ 2,714	$ 2,638
Non-GAAP Interest expense and other, net	334	107	99	534	305
Non-GAAP provision for income taxes	68	399	193	745	365
Adjusted EBITDA	$ 2,278	$ 4,695	$ 670	$ 12,112	$ (1,903)

*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, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,329	$ 19,622
Accounts receivable, net	5,084	3,118
Inventories	5,058	2,803
Prepaid expenses and other current assets	2,191	736
Total current assets	38,662	26,279
Property and equipment, net	6,271	3,793
Other assets, net	1,111	785
Acquired intangible assets, net	6,414	—
Goodwill	18,021	—
Total assets	$ 70,479	$ 30,857
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,611	$ 1,734
Accrued liabilities and current portion of long-term liabilities	16,199	7,860
Current portion of income taxes payable	763	140
Total current liabilities	19,573	9,734
Long-term liabilities, net of current portion	2,227	194
Convertible debt	5,761	—
Income taxes payable, net of current portion	2,223	1,880
Total liabilities	29,784	11,808
Shareholders' equity	40,695	19,049
Total liabilities and shareholders' equity	$ 70,479	$ 30,857

Contacts:

Investor Contact
Shelton Group
Brett Perry
P: +1-214-272-0070
E: bperry@sheltongroup.com

Company Contact
Pixelworks, Inc.
Steven Moore
P: +1-408-200-9221
E: smoore@pixelworks.com

Exhibit 99.2

Pixelworks, Inc. Q3 2017 Conference Call
November 7, 2017

Operator

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s third quarter 2017 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, we will conduct a question-and-answer session. This conference call is being recorded for replay purposes. I would now like to turn the call over to Mr. Steve Moore.

Steve Moore

Good afternoon and thank you for joining us today. With me on the call is Todd DeBonis, Pixelworks' 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 third quarter of 2017.

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 belief as of today, Tuesday, November 7, 2017, 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, 2016, 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 income/loss, and net income/loss per share. These non-GAAP measures exclude amortization of deferred revenue fair value adjustment, inventory step-up and backlog amortization, amortization of acquired intangible assets, acquisition-related costs, stock-based compensation expense, restructuring expenses, fair value adjustment on convertible debt conversion option, and discount accretion on convertible debt fair value. With the exception of stock-based compensation, all of these adjusting items are related to the acquisition and integration of ViXS Systems. 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 income/loss and GAAP net income/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, Steve and good afternoon to everyone on today's call.

As reported in today's press release, third quarter revenue was $18.8 million, at the high-end of our $18 to $19 million guidance range. This included the expected $2 million contribution from a partial quarter of ViXS. Going forward, we will refer to the ViXS product lines and solutions as Pixelworks' video delivery business. Excluding the EOL contribution in previous quarters, organic revenue in our core business grew over 7% sequentially and was up 38% year-over-year.

Gross margin expanded to 54.9% in the quarter, and we diligently managed operating expenses to a better than expected level, resulting in non-GAAP earnings of $0.03 per share - above the high-end of our guidance. Our results marked the fourth consecutive quarter of profitability on a non-GAAP basis and substantial year-over-year improvement on effectively every financial metric.

As previously announced, during the quarter we took planned steps to further streamline the entire organization following the acquisition. These decisive actions included the elimination of multiple redundant and non-strategic expenses, which enables us to rapidly realize approximately $4.0 million in annualized cost synergies.

Looking at our three end markets of Projector, Mobile and Video Delivery - we are pleased with where Pixelworks is positioned within each market to capitalize on distinctive opportunities. In fact, the trends in these markets are accelerating the need for our visual display processing technology and advanced video delivery solutions.

Projector

In our projector business revenue grew 10% sequentially and nearly 40% year-on-year to $16.5 million. I want to highlight that third quarter revenue represents a multi-year high in our core projector business, after adjusting prior quarters for the contribution from EOL products. The drivers of this growth continue to be a combination of a normalized demand environment and increased market share at our key customers, which have been consistently outperforming the broader projector market.

In addition to strong year-over-year revenue growth, we also continue to realize improved margins and profitability following the streamlining of our product line last year. ASPs remain favorable, and we believe our current material margins are sustainable for the foreseeable future.

Although the growth rates in our projector business will moderate beginning in fourth quarter due to the higher quarterly comps, our bookings continue to be strong. Channel inventories are also lean, which we expect to support order demand that's in-line with typical seasonality.

Mobile

In our mobile business - revenue declined sequentially, as a result of an anticipated product transition by our lead mobile customer, however we expect revenue and shipments to increase during the fourth quarter as ASUS ramps its next generation tablets that incorporate our Iris display processors.

The Mobile market continues to move in the direction of Pixelworks' core strengths, as leading OEMs are increasingly incorporating advanced display and video processing capabilities such as high dynamic range (or HDR), wider color gamut and adaptive displays into their newest generation devices. While the two market leaders are not our primary target due to their more integrated in-house design approach, their adoption of features like True Tone and Mobile HDR certification is clearly influential - importantly, the technology leaders put increased pressure on nearly all other OEMs and specifically on their flagship models targeting developed markets. We have recently seen a dramatic shift in interest to incorporate similar features and functionality in their future devices. Today few if any of the fast followers have the fundamental know-how or internal design capability to implement advance display processing on their own.

Adding to the increased interest from our targeted OEMs to adopt advance display capabilities is the increased availability and emphasis being placed on higher-quality content from the disruptive providers of streaming content. For example, Amazon and Netflix, are actively promoting premium content services that require a certified or 'white listed' device with a high-performance display and associated display processing pipeline in order to view their premium mobile content.

Subsequent to sampling our fourth generation Iris mobile processor early in the fourth quarter, we verified the new chip and we have since been supporting multiple evaluations with targeted OEMs. As I discussed on last quarter's call, this device was specifically designed to overcome the key hurdles for OEM adoption, including significant improvement in power, size and cost in addition to incorporating new features as compared to our third generation device.

However, I want to emphasize that the fourth generation doesn't "replace" the third generation - the respective generations have meaningfully different feature sets, and we currently have active engagements with prospective customers for both generations.

Given the current design in activity for both the third and fourth generation of Iris, we expect to ramp into meaningful volume production in mid-2018 in support of multiple new mobile OEM customers.

Video Delivery

Turning now to our recently acquired Video Delivery business - revenue was $2 million, which was in-line with our expectations for the partial-quarter of contribution. As previously mentioned, we realigned our resources in September to focus on our key consumer customers in Japan and our OTA (over the air) streaming initiatives. Combined with our crisp integration efforts, which we anticipate completing by year-end, we remain confident in our ability to drive significant revenue and operational synergies.

The current market dynamics of accelerating declines in traditional Pay TV subscribers, rapidly growing retransmission fees and new attractive OTT alternatives are creating a unique opportunity for our OTA streaming solutions. The OTA ecosystem consists of early adopter customers, software solution providers and cost competitive contract manufacturers - and Pixelworks' OTA solutions are gaining increased attention. Today there are several single, dual and quad channel solutions based upon our SoCs that are currently available through leading retailers in advance of the holidays.

Concluding Comments

To close out my prepared remarks, the opportunity for Pixelworks' technology to directly address prevailing market demand for differentiated video processing solutions has never been more tangible. More specifically, both mobile display processing and OTA streaming represent dynamic growth potential, and I believe the company is uniquely positioned to aggressively pursue these two distinctive and rapidly emerging market trends. As a result of our recent integration efforts, we are now critically focused on realizing meaningful inflection points in both markets in 2018.

I'll now turn the call over to Steve to review our third quarter financials and guidance for the fourth quarter in more detail. Steve?

Steve Moore

Thank you, Todd.

Revenue for the third quarter of 2017 was $18.8 million. This is compared to $20.7 million in the second quarter of 2017 which included $5.1 million of EOL revenue, and revenue of $13.7 million in the third quarter of 2016. Revenue in the third quarter of 2017 reflected a 39% year-on-year growth in our digital projection business.

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

Revenue from Digital projection products was approximately $16.6 million.

Mobile revenue was approximately $190,000.

And revenue from Video Delivery was $2 million.

Non-GAAP gross profit margin was 54.9% in the third quarter of 2017, compared to 54.4% in the second quarter of 2017 and 48.6% in the third quarter of 2016.

Non-GAAP operating expenses were $8.9 million in the third quarter of 2017, compared to $7.6 million in the previous quarter and $6.8 million in the third quarter of 2016. Q3 operating expense included a credit of approximately $1.3 million related to the previously announced co-development project with a large projector customer.

Adjusted EBITDA was $2.3 million for the third quarter of 2017, compared to $4.7 million in the second quarter of 2017 and $670,000 in the year-ago quarter.

A reconciliation of adjusted EBITDA to GAAP net income/loss may be found in today's press release.

On a non-GAAP basis the Company reported a net profit of $976,000, or three cents per diluted share, in the third quarter of 2017, as compared to a net profit of $3.2 million, or 10 cents per diluted share, in the prior quarter, and a non-GAAP net loss of $438,000, or 2 cents loss per share, in the third quarter of 2016.

Moving to the balance sheet, cash and cash equivalents decreased sequentially by $5.9 million to approximately $26.3 million at the end of the third quarter. This decrease was primarily due to the payment of approximately $5 million of debt assumed as part of our acquisition of ViXS, which was partially offset by approximately $2 million in cash assumed in the acquisition. The Company also paid approximately $1.5 million, in Q3, for the mask set related to fourth generation Iris device.

Other balance sheet metrics include days sales outstanding of 24 days at quarter-end, compared to 25 days at the end of the second quarter. On an annualized basis, inventory turns decreased to 12.2 times in the third quarter, compared to 17.2 times in the prior quarter. Reported inventory as of September 30, 2017 included approximately $1.4 million of purchase accounting step-up, which is expected to largely be amortized over the next two quarters.

Guidance

For the fourth quarter of 2017, we expect revenue to be in a range of between $17.5 and $18.5 million.

We expect non-GAAP gross margin of between 55% and 57%.

Operating expenses on a non-GAAP basis are expected to be between $10 and $11 million. Unlike in the third quarter, no credits related to the projector co-development project are expected to be recorded in Q4 2017.

We expect non-GAAP EPS to be in a range of between loss of 5 cents per basic share and income of 1 cent per diluted share.

With that, we will now open the call for questions. Operator.