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): August 2, 2018

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:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o 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 o

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. o

Item 2.02 Results of Operations and Financial Condition.

On August 2, 2018, Pixelworks, Inc. (the "Company") issued a press release announcing financial results for the three and six month periods ended June 30, 2018 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 August 2, 2018 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 August 2, 2018.
99.2	Pixelworks, Inc. First Quarter Results Conference Call Script dated August 2, 2018.

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: August 2, 2018	/s/ Steven L. Moore
	Steven L. Moore *Vice President, Chief Financial Officer, Secretary and Treasurer*

Exhibit 99.1

Pixelworks Reports Second Quarter 2018 Financial Results

Revenue increased 26% Sequentially Driven by Growth in Projector and Mobile;

Expects Sequential Growth in Projector, Video Delivery and Mobile in the Third Quarter

SAN JOSE, Calif., Aug. 2, 2018 - Pixelworks, Inc. (NASDAQ: PXLW), a leading provider of power efficient visual processing solutions, today announced financial results for the second quarter ended June 30, 2018.

Second Quarter Highlights

- Digital Projector revenue grew 31% sequentially
- Mobile revenue grew 66% sequentially and 29% year-over-year, on increased production volume shipments of both 3rd and 4th generation Iris processors to smartphone OEM customers
- Secured multiple new wins and increased pipeline of customer engagements in both mobile and video delivery

President and CEO of Pixelworks, Todd DeBonis, commented, "Second quarter revenue of $19.3 million was above the high-end of our guidance range, reflecting strong sequential growth in both the digital projector and mobile markets. Additionally, consolidated revenue in the second quarter grew more than 20 percent year-over-year after adjusting for the end-of-life revenue we recognized in 2017. Operating expenses were in-line with our expectations, and we achieved breakeven bottom-line results on a non-GAAP basis.

"Complementing our solid financial results, we announced several notable wins during the second quarter. In mobile, we shipped increased volumes of 3rd and 4th generation Iris processors in support of announced wins on Xiaomi Blackshark's gaming smartphone and ASUS' flagship ROG Phone. In our video delivery business, we announced our XCode transcoding SoCs were selected to enable multiple leading OTA devices, including AirTV and Nuvyyo's Tablo Dual-Lite DVR.

"Prevailing video consumption trends among consumers are continuing to drive increased momentum for the incorporation of Pixelworks' advanced display technologies in next-generation devices. As evidence, today we have the largest pipeline of customer and program engagements in recent history, and we anticipate being able to announce multiple new wins in mobile during the second half of the year. Specific to the third quarter, we expect to report healthy sequential and year-over-year consolidated revenue growth, with our video delivery business anticipated to be accretive and contribute to our improvement in overall profitability."

Second Quarter 2018 Financial Results

Revenue in the second quarter of 2018 was $19.3 million, compared to $15.3 million in the first quarter of 2018. The sequential increase reflects a combination of seasonal growth in the Company's digital projector business and expanded shipments of Iris mobile processors in support of new product launches at multiple smartphone customers. Revenue in the second quarter of 2017 was $20.7 million, which included $5.1 million of legacy end-of-life product revenue.

On a GAAP basis, gross profit margin in the second quarter of 2018 was 49.5%, compared to 51.0% in the first quarter of 2018 and 54.1% in the second quarter of 2017. Second quarter 2018 GAAP operating expenses were $12.0 million compared to $9.1 million in the first quarter of 2018 and $9.2 million in the year-ago quarter.

For the second quarter of 2018, the Company recorded a GAAP net loss of $2.6 million, or $(0.07) per share, compared to a GAAP net loss of $598,000, or $(0.02) per share, in the first quarter of 2018 and GAAP net income of $1.3 million, or $0.04 per diluted share, in the year-ago quarter.

On a non-GAAP basis, second quarter 2018 gross profit margin was 52.7%, compared to 54.2% in the first quarter of 2018 and 54.4% in the year-ago quarter. Second quarter 2018 non-GAAP operating expenses were $10.0 million, compared to $7.8 million in the first quarter of 2018 and $7.6 million in the year-ago quarter. Operating expenses in both the first quarter of 2018 and second quarter of 2017 included the recognition of approximately $2 million of offsets to R&D related to the Company's ongoing co-development project with a large digital projector customer.

For the second quarter of 2018, the Company recorded a non-GAAP net loss of $140,000, or $(0.00) per share, compared to non-GAAP net income of $38,000, or $0.00 per diluted share, in the first quarter of 2018 and non-GAAP net income of $3.2 million, or $0.10 per diluted share, in the year-ago quarter. Adjusted EBITDA in the second quarter of 2018 was $1.1 million, compared with $1.3 million in the first quarter of 2018 and $4.7 million in the year-ago quarter.

Business Outlook

For the third quarter of 2018, Pixelworks expects revenue to be in a range of between $21 million and $22 million. Additional guidance will be provided as part of the Company's earnings conference call.

Conference Call Information

Pixelworks will host a conference call today, August 2, 2018, at 2:00 p.m. Pacific Time, which can be accessed by calling 877-359-9508 and using passcode 8078505. 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 Thursday, August 9, 2018, and can be accessed by calling 855-859-2056 and using passcode 8078505.

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 has a 20-year history of delivering image processing innovation to providers of leading edge consumer electronics and professional displays. Pixelworks is headquartered in San Jose, Calif. 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 inventory step-up and backlog amortization, amortization of acquired intangible assets, stock-based compensation expense, restructuring expenses, discount accretion on convertible debt fair value and gain on extinguishment of convertible debt, 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 help 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 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, impact of inventory step up both related to fair valuing the items, restructuring expenses related to a reduction in workforce, accretion on convertible debt of ViXS. Management considers these items as either limited in term or having no impact on Pixelworks' cash flows, and therefore has excluded such items to 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 about the Company’s digital projection, mobile and OTA businesses, including market movement and demand, customer engagements, mobile wins and the timing thereof, growth in the mobile and video delivery markets, synergies and additional guidance. 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, 2017 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			Six Months Ended	
	June 30, 2018	**March 31, 2018**	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Revenue, net	$ 19,251	$ 15,292	$ 20,721	$ 34,543	$ 43,431
Cost of revenue (1)	9,717	7,490	9,520	17,207	19,838
Gross profit	9,534	7,802	11,201	17,336	23,593
Operating expenses:					
Research and development (2)	6,423	4,463	4,501	10,886	9,407
Selling, general and administrative (3)	4,959	4,614	4,660	9,573	8,799
Restructuring	602	19	—	621	—
Total operating expenses	11,984	9,096	9,161	21,080	18,206
Income (loss) from operations	(2,450)	(1,294)	2,040	(3,744)	5,387
Interest income (expense) and other, net (4)	(131)	972	(107)	841	(200)
Income (loss) before income taxes	(2,581)	(322)	1,933	(2,903)	5,187
Provision for income taxes	32	276	669	308	1,102
Net income (loss)	$ (2,613)	$ (598)	$ 1,264	$ (3,211)	$ 4,085
Net income (loss) per share:					
Basic	$ (0.07)	$ (0.02)	$ 0.04	$ (0.09)	$ 0.14
Diluted	$ (0.07)	$ (0.02)	$ 0.04	$ (0.09)	$ 0.13
Weighted average shares outstanding:					
Basic	35,704	35,183	29,766	35,445	29,526
Diluted	35,704	35,183	31,974	35,445	31,601

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(1) Includes:					
Amortization of acquired intangible assets	298	298	—	596	—
Inventory step-up and backlog amortization	239	122	—	361	—
Stock-based compensation	78	66	69	144	122
(2) Includes stock-based compensation	627	595	362	1,222	676
(3) Includes:					
Stock-based compensation	682	539	519	1,221	941
Amortization of acquired intangible assets	101	101	—	202	—
Acquisition and integration	—	—	730	—	894
(4) Includes:					
Gain on debt extinguishment	—	(1,272)	—	(1,272)	—
Discount accretion on convertible debt fair value	—	69	—	69	—

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

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	$ 9,534	$ 7,802	$ 11,201	$ 17,336	$ 23,593
Amortization of acquired intangible assets	298	298	—	596	—
Inventory step-up and backlog amortization	239	122	—	361	—
Stock-based compensation	78	66	69	144	122
Total reconciling items included in gross profit	615	486	69	1,101	122
Non-GAAP gross profit	$ 10,149	$ 8,288	$ 11,270	$ 18,437	$ 23,715
Non-GAAP gross profit margin	52.7%	54.2%	54.4%	53.4%	54.6%
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	$ 11,984	$ 9,096	$ 9,161	$ 21,080	$ 18,206
Reconciling item included in research and development:					
Stock-based compensation	627	595	362	1,222	676
Reconciling items included in selling, general and administrative:					
Stock-based compensation	682	539	519	1,221	941
Amortization of acquired intangible assets	101	101	—	202	—
Acquisition and integration	—	—	730	—	894
Restructuring	602	19	—	621	—
Total reconciling items included in operating expenses	2,012	1,254	1,611	3,266	2,511
Non-GAAP operating expenses	$ 9,972	$ 7,842	$ 7,550	$ 17,814	$ 15,695
Reconciliation of GAAP and non-GAAP net income (loss)					
GAAP net income (loss)	$ (2,613)	$ (598)	$ 1,264	$ (3,211)	$ 4,085
Reconciling items included in gross profit	615	486	69	1,101	122
Reconciling items included in operating expenses	2,012	1,254	1,611	3,266	2,511
Reconciling items included in interest expense and other, net	—	(1,203)	—	(1,203)	—
Tax effect of non-GAAP adjustments	(154)	99	270	(55)	425
Non-GAAP net income (loss)	$ (140)	$ 38	$ 3,214	$ (102)	$ 7,143
Non-GAAP net income (loss) per share:					
Basic	$ (0.00)	$ 0.00	$ 0.11	$ (0.00)	$ 0.24
Diluted	$ (0.00)	$ 0.00	$ 0.10	$ (0.00)	$ 0.23
Non-GAAP weighted average shares outstanding:					
Basic	35,704	35,183	29,766	35,445	29,526
Diluted	35,704	37,306	31,974	35,445	31,601

*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						Six Months Ended			
	June 30, 2018		March 31, 2018		June 30, 2017		June 30, 2018		June 30, 2017	
	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 income (loss)										
GAAP net income (loss)	$ (0.07)	$ (0.07)	$ (0.02)	$ (0.02)	$ 0.04	$ 0.04	$ (0.09)	$ (0.09)	$ 0.14	$ 0.13
Reconciling items included in gross profit	0.02	0.02	0.01	0.01	—	—	0.03	0.03	—	—
Reconciling items included in operating expenses	0.06	0.06	0.04	0.03	0.05	0.05	0.09	0.09	0.09	0.08
Reconciling items included in interest expense and other, net	—	—	(0.03)	(0.03)	—	—	(0.03)	(0.03)	—	—
Tax effect of non-GAAP adjustments	—	—	—	—	0.01	0.01	—	—	0.01	0.01
Non-GAAP net income (loss)	$ (0.00)	$ (0.00)	$ 0.00	$ 0.00	$ 0.11	$ 0.10	$ (0.00)	$ (0.00)	$ 0.24	$ 0.23

*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			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Reconciliation of GAAP and non-GAAP gross profit margin					
GAAP gross profit margin	49.5%	51.0%	54.1%	50.2%	54.3%
Amortization of acquired intangible assets	1.5	1.9	—	1.7	—
Inventory step-up and backlog amortization	1.2	0.8	—	1.0	—
Stock-based compensation	0.4	0.4	0.3	0.4	0.3
Total reconciling items included in gross profit	3.2	3.2	0.3	3.2	0.3
Non-GAAP gross profit margin	52.7%	54.2%	54.4%	53.4%	54.6%

*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			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Reconciliation of GAAP net income (loss) and adjusted EBITDA					
GAAP net income (loss)	$ (2,613)	$ (598)	$ 1,264	$ (3,211)	$ 4,085
Stock-based compensation	1,387	1,200	950	2,587	1,739
Restructuring	602	19	—	621	—
Amortization of acquired intangible assets	399	399	—	798	—
Inventory step-up and backlog amortization	239	122	—	361	—
Tax effect of non-GAAP adjustments	(154)	99	270	(55)	425
Gain on debt extinguishment	—	(1,272)	—	(1,272)	—
Discount accretion on convertible debt fair value	—	69	—	69	—
Acquisition and integration	—	—	730	—	894
Non-GAAP net income (loss)	$ (140)	$ 38	$ 3,214	$ (102)	$ 7,143
EBITDA adjustments:					
Depreciation and amortization	$ 923	$ 826	$ 975	$ 1,749	$ 1,814
Non-GAAP Interest expense and other, net	131	231	107	362	200
Non-GAAP provision for income taxes	186	177	399	363	677
Adjusted EBITDA	$ 1,100	$ 1,272	$ 4,695	$ 2,372	$ 9,834

*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)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,443	$ 27,523
Short-term marketable securities	2,726	—
Accounts receivable, net	6,589	4,640
Inventories	2,890	2,846
Prepaid expenses and other current assets	2,097	1,328
Total current assets	31,745	36,337
Property and equipment, net	5,299	5,605
Other assets, net	1,341	1,338
Acquired intangible assets, net	5,058	5,856
Goodwill	18,407	18,407
Total assets	$ 61,850	$ 67,543
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,932	$ 1,436
Accrued liabilities and current portion of long-term liabilities	13,526	16,387
Current portion of income taxes payable	379	445
Total current liabilities	16,837	18,268
Long-term liabilities, net of current portion	985	1,487
Income taxes payable, net of current portion	2,326	2,282
Convertible debt	—	6,069
Total liabilities	20,148	28,106
Shareholders' equity	41,702	39,437
Total liabilities and shareholders' equity	$ 61,850	$ 67,543

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Exhibit 99.2

Pixelworks, Inc. Q2 2018 Conference Call
August 2, 2018

Operator

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s second quarter 2018 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 Pixelworks' CFO, 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 second quarter of 2018.

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, August 2, 2018, 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, 2017, 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 inventory step-up and backlog amortization, amortization of acquired intangible assets, stock-based compensation expense, restructuring expenses, discount accretion on convertible debt fair value and extinguishment of convertible debt. 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 those joining us on today's call.

Highlighting our second quarter financial results was the achievement of over 25% sequential growth, driven by strong demand in Projector and expanding volume shipments in Mobile. Consolidated revenue of $19.3 million was above the high-end of our guidance range and represented over 20% year-over-year growth after adjusting for end-of-life revenue recognized in first half 2017. Operating expenses were in-line with our guidance, and we delivered breakeven EPS on a non-GAAP basis for the second consecutive quarter.

With that, I'll now provide updates on each of our end markets, beginning with our core Digital Projector business.

As anticipated, we had strong sequential growth in Projector, with revenue increasing over 30% following typical seasonality in the first quarter. The increase in orders and revenue during the second quarter extended across multiple customers, which serves as a positive indicator on the health of the overall projector market. We remain well positioned in the 3-LCD portion of the projector market, and we continue to have strong relationships with all of our existing customers.

Additionally, our team continues to execute extremely well on the co-development of a next-generation SoC for a large projector customer. We remain on track to release this new solution for production by the end of this year. We currently expect to achieve the final development milestone in the third quarter, which will result in an approximately $2 million off-set to R&D in the back half of the year. In addition to future sales of this new SoC to our large co-development customer, upon completion of the chip we expect to further enhance Pixelworks' return on this investment by leverage the resulting intellectual property in similar solutions to our other projector customers.

Near-term, we continue to have good visibility into customer demand, and channel inventories are consistent with normal seasonal patterns. Bookings for the current quarter are very solid, resulting in our expectation for continued sequential revenue growth in our Projector business in the third quarter.

Turning to Video Delivery - which performed largely as expected during the second quarter. Having successfully completed the majority of our initiatives to streamline this business, we've increasingly been focused on building a robust and sustainable pipeline of new Video Delivery engagements while simultaneously preparing for the ramp in growth that we anticipate in the second half of the year. During the quarter, we announced multiple wins for our transcoding chips in newly launched OTA devices.

The first of these wins was with AirTV and the incorporation of Pixelworks' XCode 5116 in the AirTV OTA streaming device. Following AirTV's soft-launch late last year, in May they officially launched the new AirTV solution, which enables the wireless streaming of free, HD over-the-air channels to internet-connected TVs and mobile devices. Unique to the AirTV solution is its ability to seamlessly integrate available OTA channels with Sling TV OTT channels in a single, streamlined app.

Then, in collaboration with MaxLinear, we also announced our XCode 5516 was selected by Nuvyyo for the recently launched Tablo Dual Lite OTA DVR. At the core of this advanced streaming device is Pixelworks' powerful OTA solution, which enables adjustable bit-rate streaming as well as dual-stream, realtime transcoding of native MPEG2 format-to-the more efficient H.264 format. In addition to simultaneous streaming of two HD OTA channels over either a Wi-Fi or Ethernet connection, this new Tablo OTA device offers built-in recording functionality with expandable storage.

Both the AirTV and the Tablo streaming device represent meaningful advances in the usability, functionality and performance of OTA solutions at a lower price point for consumers. Pixelworks' advanced transcoding technology is a key enabler of these and other OTA streaming devices, and we continue to work aggressively with both customers and other players in the ecosystem to simplify and promote further innovation in next-generation OTA devices.

As one example of these efforts, we recently announced the availability of an innovative new solution for incorporating Pixelworks' OTA streaming technology in networking hardware based on Qualcomm's Mesh Networking Platform. Developed in close collaboration with this leader in connectivity, this mesh OTA offering provides manufacturers of wireless networking products with a compelling combination of Qualcomm's Video-Over-Mesh features and built-in live HDTV streaming capability leveraging Pixelworks advanced transcoding technology. The first commercial demonstrations of the solution were shown to prospective networking equipment manufactures at Computex in June, and we believe mesh OTA represents a compelling longer-term growth opportunity for Pixelworks.

Our other primary area of focus within Video Delivery continues to be the consumer electronics market in Japan. Today, we are well positioned on multiple customer programs to incorporate our XCode family of advanced decoding and transcoding SoCs in their next-generation devices. Many of these programs are specifically targeted at Japan's anticipated roll-out of a new advanced TV broadcast standard called ADSB-T, which supports over-the-air Terrestrial Broadcast in 4K and HDR quality. The transition to this new ADSB-T standard in Japan is scheduled to go live in December of this year and is expected to result in a meaningful upgrade cycle - as a significant number of Japanese consumers, especially those that have existing 4K TVs, will need to purchase new, compatible equipment in order to take advantage of ADSB-T's higher-quality broadcast signal. We currently have existing backlog for our XCode processors in advance of planned customers product launches later this year. These product launches are expected to include a combination of converter boxes as well as full PVR set-top-box devices, both of which will leverage Pixelworks' advanced decoding and transcoding technology.

As we look to the third quarter, we expect an initial ramp of shipments in support of existing wins for customer programs to drive sequential revenue growth in our Video Delivery business. Consistent with our prior commitment, we also anticipate our Video Delivery to be EPS accretive beginning in the third quarter as a result of our previous actions to streamline the business following our acquisition of ViXS in 2017.

Now turning to Mobile - across several metrics, we made definitive progress on our mobile initiative during the second quarter. Although admittedly from a small base, revenue from mobile grew 66% sequentially and was up 29% year-over-year. Mobile revenue in the quarter primarily consisted of follow-on orders in support of the Xiaomi Blackshark gaming smartphone, which we highlighted on our previous call, as well as initial production orders associated with inventory builds for ASUS' ROG, or Republic of Gamers, smartphone.

ASUS ROG is also the first launched smartphone to incorporate Pixelworks' 4th generation Iris processor. The ROG phone features a 2160x1080 resolution AMOLED display, has an over 100% DCI-P3 wide color gamut and a 90Hz refresh rate - all of which rely on leveraging Pixelworks' Iris mobile processor. Another unique aspect of this smartphone is an optional TwinView Dock accessory to view and play games on external displays - and this docking accessory also incorporates our 4th Gen Iris to ensure equivalent image and video quality. The ASUS ROG phone is expected to be available for purchase in select markets in Asia and Europe starting later this month, followed by expanded availability in additional regions and markets in the coming months.

As evidenced by our wins on the Xiaomi Blackshark and ASUS ROG, there has been a recent emergence of smartphones targeted specifically at gamers. As global smartphone unit volume plateaus, growth for established mobile OEMs is increasingly dependent on capturing incremental market share. We believe this will drive OEMs to identify or create new sub-segments of the market in which to compete, such as targeting avid gamers. Moreover, our belief is that many OEMs prefer to compete based on differentiated features and performance in a defined segment of the market, as opposed to competing more broadly based purely on price. These market dynamics are advantageous for Pixelworks - In fact, we are seeing increased emphasis and focus being placed on high-quality displays across our existing customer engagements, including growing interest in OLED and bezel-less display applications as well as for advanced video processing capabilities such as, Pixelworks' industry leading MEMC technology.

Following the notable increase in customer interest and active programs we experienced over the last few quarters, we further expanded our number of customer engagements again in the second quarter and we currently have the largest pipeline of active programs since launching IRIS. It's important to recognize that engagements are a process and they don't convert to revenue overnight. That being said, based on the collective status of our existing and new programs, we expect another quarter of sequential growth in the third quarter and as such we anticipate being able to announce multiple new mobile wins with shipments to an increased number of mobile customers during the second half of this year.

Lastly, during our first quarter conference call we felt it was prudent to indirectly acknowledge a particular China OEM customer that was having trouble with the U.S. Department of Commerce - I think we are all familiar with the associated headlines since our last conference call, so I want to provide a brief update. Undoubtedly, we are encouraged by what appears to be a lasting resolution, and we are now actively re-engaged with this customer. With that said, going forward we are going to handle this customer engagement and any respective programs as we would any other customer by deferring any comments or updates until after the customer has publicly launched their respective products.

To close out my prepared remarks, our strong second quarter growth was further highlighted by notable progress and new wins across both our Mobile and Video Delivery businesses. As I've stated in the past, the market is continuing to move in the direction of Pixelworks. Video consumption trends among consumers are increasing the importance and demand for high-quality displays, which in turn is enhancing the need for image and video processing solutions - all of which provide further validation of the value proposition for Pixelworks' advanced display technologies.

As our pipeline of customer and program engagements have expanded we have focused our team on being more selective with new customer engagements. As a result, we believe we've also increased the quality of our existing pipeline.

Looking to the third quarter, we expect sequential growth across Projector, Video Delivery and Mobile. Specific to mobile, our current expectations include the announcement of multiple new wins during the second half of the year. Additionally, we anticipate our Video Delivery business to be accretive in the third quarter and begin contributing to our improving profitability.

With that I'll turn the call over to Steve for a more detailed review our second quarter financials and our guidance for the third quarter. Steve?

Steve Moore

Thank you, Todd.

Revenue for the second quarter of 2018 was $19.3 million, which reflected a combination of seasonal growth in our digital projector business and expanded shipments of Iris mobile processors in support of new smartphone launches at multiple customers. For comparison, revenue in the first quarter of 2018 was $15.3 million and in the second quarter of 2017 was $20.7 million, which included $5.1 million of legacy end-of-life product revenue.

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

Revenue from Digital Projector was approximately $16.1 million.

Mobile revenue was approximately $720,000.

And revenue from Video Delivery was $2.1 million.

Additionally, we recorded approximately $320,000 of legacy TV & Panel product sold.

Non-GAAP gross profit margin was 52.7% in the second quarter of 2018, compared to 54.2% in the first quarter of 2018 and 54.4% in the second quarter of 2017.

Non-GAAP operating expenses were $10 million in the second quarter of 2018, compared to $7.8 million in the first quarter of 2018 and $7.6 million in the second quarter of 2017. Operating expenses in both the first quarter of 2018 and second quarter of 2017 reflected the recognition of approximately $2 million offset to R&D associated with our co-development project with a large projector customer.

Adjusted EBITDA was $1.1 million for the second quarter of 2018, compared to $1.3 million in the first quarter of 2018 and $4.7 million in the second quarter of 2017. A reconciliation of adjusted EBITDA to GAAP net income/loss may be found in today's press release.

We reported a non-GAAP net loss of $140,000, or breakeven on a per share basis, in the second quarter of 2018, compared to non-GAAP net income of $38,000, or breakeven on a per diluted share basis, in the prior quarter, and non-GAAP net income of $3.2 million, or 10 cents per diluted share, in the second quarter of 2017.

Moving to the balance sheet, we ended the second quarter with cash, cash equivalents and short-term investments of approximately $20.2 million, a decrease of $7.3 million from the end of 2017, reflecting the pay-off of all remaining convertible debt that we acquired as part of ViXS as well as reflecting cash used in operations during the first half of 2018.

Other balance sheet metrics include day’s sales outstanding of 31 days at quarter-end, compared with 26 days at the end of the first quarter 2018. Inventory turns during the second quarter of 2018 were 13.7 times, compared to 12 times in the prior quarter.

Our guidance for the third quarter of 2018 is as follows:

We expect revenue to be in a range of between $21 million and $22 million.

We expect non-GAAP gross profit margin of between 53% and 55%.

For operating expenses, we expect the third quarter to range between $8.5 million and $9.5 million on a non-GAAP basis. Note, our expectations for operating expenses in the third quarter of 2018 include the anticipated recognition of approximately $1.6 million of offsets to R&D related to our co-development project with a large digital projector customer.

And finally, we expect third quarter non-GAAP earnings per share to be in the range of between positive 4 cents and 8 cents per diluted share.

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