

**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): February 2, 2017

PIXELWORKS, INC.

(Exact name of registrant as specified in its charter)

OREGON
(State or other jurisdiction of
incorporation)

000-30269
(Commission File Number)

91-1761992
(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))
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Item 2.02 Results of Operations and Financial Condition.

On February 2, 2017, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and twelve month periods ended December 31, 2016 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 February 2, 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 February 2, 2017.
99.2	Pixelworks, Inc. Fourth Quarter Results Conference Call Script dated February 2, 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: February 2, 2017

/s/ Steven L. Moore

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

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release issued by Pixelworks, Inc. dated February 2, 2017.
99.2	Pixelworks, Inc. Fourth Quarter Results Conference Call Script dated February 2, 2017.



Pixelworks Reports Fourth Quarter 2016 Financial Results

SAN JOSE, Calif., February 2, 2017 -- Pixelworks, Inc. (NASDAQ: PXLW), an innovative provider of video display processing technology, today announced financial results for the fourth quarter and fiscal year ended December 31, 2016.

Fourth Quarter Highlights

- Increased revenue 19% year over year and 17% sequentially to \$16.0 million
- Achieved GAAP net income of \$0.01 and non-GAAP net income of \$0.04, per diluted share
- Generated positive cash flow from operations, with net cash balance of \$19.6 million at quarter-end

For the fourth quarter 2016, revenue was \$16.0 million, compared to \$13.7 million in the prior quarter and \$13.5 million in the fourth quarter of 2015. The increase in revenue was primarily driven by healthy demand for the Company's chips sold into digital projection market as order patterns continued to normalize from the previous supply channel disruption.

On a GAAP basis, gross profit margin in the fourth quarter of 2016 was 53.2%, compared to 48.0% in the third quarter of 2016 and 50.6% in the fourth quarter of 2015. Fourth quarter 2016 GAAP operating expenses were \$8.1 million, compared to \$7.5 million in the previous quarter and \$9.7 million in the fourth quarter of 2015.

For the fourth quarter of 2016, the Company recorded GAAP net income of \$337,000, or \$0.01 per diluted share, compared to a GAAP net loss of \$1.2 million, or \$0.04 per share, in the third quarter of 2016 and a GAAP net loss of \$3.2 million, or \$0.11 per share, in the fourth quarter of 2015.

On a non-GAAP basis, fourth quarter 2016 gross profit margin was 53.6%, compared to 48.6% in the third quarter of 2016 and 50.9% in the fourth quarter of 2015. Fourth quarter 2016 gross profit margin increased compared to the prior periods due to a more favorable sales mix and lower direct material cost, primarily for products sold into the digital projector market. Fourth quarter 2016 operating expenses on a non-GAAP basis were \$7.3 million, compared to \$6.8 million in the previous quarter and \$8.8 million in the fourth quarter of 2015.

For the fourth quarter of 2016, the Company recorded non-GAAP net income of \$1.2 million, or \$0.04 per diluted share, compared to a non-GAAP net loss of \$438,000, or \$0.02 per share, in the third quarter of 2016 and non-GAAP net loss of \$2.2 million, or \$0.08 per share, in the fourth quarter of 2015. Adjusted EBITDA in the fourth quarter of 2016 was a positive \$2.1 million, compared to a positive \$670,000 in the previous quarter and a negative \$941,000 in the fourth quarter of 2015.

President and CEO of Pixelworks, Todd DeBonis, commented, "Fourth quarter revenue increased 17% sequentially to \$16 million, reaching the high-end of guidance and reflecting solid demand across the projector market. We also achieved profitability on both a GAAP and non-GAAP basis in the quarter - the first time in over three years. Finally, we significantly exceeded our stated goal earlier in the year to achieve cash flow breakeven by the fourth quarter, generating \$3 million in cash from operations in the quarter."

"These results demonstrate the considerable progress we've made over the last few quarters to transform our operating model and strengthen the Company's fundamentals. Looking forward, we expect to achieve year-over-year revenue growth, excluding the anticipated EOL contribution, while also maintaining a goal of delivering profitability in 2017. We are now well positioned to capture additional share in the projector market, which continues to exhibit improving dynamics. In mobile, the efforts of our strengthened sales organization remains focused on driving incremental adoption of Pixelworks' technology, including at targeted OEMs in Asia as well as across the broader mobile ecosystem."

Business Outlook for the First Quarter of 2017

The Company's expectations for the first quarter of 2017 include:

- Revenue to be between \$22 million and \$23 million, including approximately \$9.0 million of revenue related to End of Life (EOL) products with the run-rate projector business reflecting typical seasonality;
- Gross profit margin of approximately 53% to 55% on both a GAAP basis and non-GAAP basis; and
- Operating expenses of \$9 million to \$10 million on a GAAP basis and \$8 million to \$9 million on a non-GAAP basis.

The difference in estimated operating expenses on a GAAP basis, versus a non-GAAP basis, is stock-based compensation expense, of which a range between \$0.5 million to \$1.0 million is included on a GAAP basis. Stock-based compensation expense is excluded from the calculation of estimated operating expenses on a non-GAAP basis.

Conference Call Information

Pixelworks will host a conference call today at 2:00 p.m. Pacific Time, which can be accessed by calling 877-359-9508 and using passcode 54381421. 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, February 9, 2017, and can be accessed by calling 855-859-2056 and using passcode 54381421.

About Pixelworks, Inc.

Pixelworks creates, develops and markets video display processing technology for digital video applications that demand the very highest quality images. At design centers around the world, Pixelworks engineers constantly push video performance to keep manufacturers of consumer electronics and professional displays worldwide on the leading edge. 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 excludes restructuring charges, stock-based compensation expense and additional amortization of a non-cancelable prepaid royalty, which are required under GAAP. The press release also 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 (benefit), depreciation and amortization, as well as the specific items listed above. The Company believes these non-GAAP measures provide a meaningful perspective on the Company's core operating results and underlying cash flow dynamics, but cautions investors to consider these measures in addition to, not as a substitute for, its 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 Company's website.

Safe Harbor Statement

This release contains forward-looking statements, including, without limitation, statements with respect to the Company's growth opportunities, product shipments, product demand, customer engagements, and the Company's potential and position for the future, statements made by Mr. DeBonis about the Company's digital projection and mobile businesses, and statements with respect to the business outlook for the first quarter and the full year of 2017, including revenue, gross margin, operating expenses and profitability, 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," "believe," "expect" and similar terms or the negative of such terms. 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: our ability to deliver new products in a timely fashion; our new product yield rates; changes in estimated product costs; product mix; supply of products from third-party foundries; failure or difficulty in achieving design wins; timely customer transition to new product designs; competitive factors, such as rival chip architectures, introduction or traction by competing designs, or pricing pressures; risks related to licensing our intellectual property; the success of our products in expanded markets; current global economic challenges; levels of inventory at distributors and customers; changes in the digital display and projection markets; changes in customer ordering patterns or lead times; seasonality in the consumer electronics market; our efforts to achieve profitability from operations; insufficient, excess or obsolete inventory and variations in inventory valuation; the outcome of any litigation related to our intellectual property rights; our limited financial resources and our ability to attract and retain key personnel; and risks related to our restructuring plan, including whether the expected amount of the costs associated with the restructuring program will differ from or exceed the Company's forecasts and whether the Company will be able to realize the full amount of estimated savings from the restructuring program or in the timeframe expected. More information regarding potential factors that could affect the Company's financial results and could cause actual results to differ materially 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, 2015 as well as subsequent SEC filings.

The forward-looking statements contained in this release speak as of the date of this release, and we do 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			Twelve Months Ended	
	December 31,	September 30,	December 31,	December 31,	December 31,
	2016	2016	2015	2016	2015
Revenue, net	\$ 15,987	\$ 13,656	\$ 13,477	\$ 53,390	\$ 59,517
Cost of revenue (1)	7,483	7,099	6,663	28,322	30,224
Gross profit	8,504	6,557	6,814	25,068	29,293
Operating expenses:					
Research and development (2)	4,415	4,442	6,076	19,036	24,644
Selling, general and administrative (3)	3,653	3,072	3,648	13,770	14,453
Restructuring	—	3	—	2,608	—
Total operating expenses	8,068	7,517	9,724	35,414	39,097
Income (loss) from operations	436	(960)	(2,910)	(10,346)	(9,804)
Interest expense and other, net	(101)	(99)	(129)	(406)	(446)
Income (loss) before income taxes	335	(1,059)	(3,039)	(10,752)	(10,250)
Provision (benefit) for income taxes	(2)	183	128	355	320
Net income (loss)	\$ 337	\$ (1,242)	\$ (3,167)	\$ (11,107)	\$ (10,570)
Net income (loss) per share:					
Basic	\$ 0.01	\$ (0.04)	\$ (0.11)	\$ (0.39)	\$ (0.42)
Diluted	\$ 0.01	\$ (0.04)	\$ (0.11)	\$ (0.39)	\$ (0.42)
Weighted average shares outstanding:					
Basic	28,684	28,313	27,697	28,276	25,088
Diluted	30,244	28,313	27,697	28,276	25,088

(1) Includes:

Stock-based compensation	\$ 51	\$ 49	\$ 49	\$ 190	\$ 196
Restructuring	7	27	—	1,784	—
Additional amortization of non-cancelable prepaid royalty	—	—	—	—	(14)
(2) Includes stock-based compensation	378	401	485	1,600	1,927
(3) Includes stock-based compensation	377	334	397	872	1,798

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

	Three Months Ended			Twelve Months Ended	
	December 31, 2016	September 30, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	\$ 8,504	\$ 6,557	\$ 6,814	\$ 25,068	\$ 29,293
Stock-based compensation	51	49	49	190	196
Restructuring	7	27	—	1,784	—
Additional amortization of non-cancelable prepaid royalty	—	—	—	—	(14)
Total reconciling items included in cost of revenue	58	76	49	1,974	182
Non-GAAP gross profit	<u>\$ 8,562</u>	<u>\$ 6,633</u>	<u>\$ 6,863</u>	<u>\$ 27,042</u>	<u>\$ 29,475</u>
Non-GAAP gross profit margin	<u>53.6%</u>	<u>48.6%</u>	<u>50.9%</u>	<u>50.6%</u>	<u>49.5%</u>
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	\$ 8,068	\$ 7,517	\$ 9,724	\$ 35,414	\$ 39,097
Reconciling item included in research and development:					
Stock-based compensation	378	401	485	1,600	1,927
Reconciling item included in selling, general and administrative:					
Stock-based compensation	377	334	397	872	1,798
Restructuring	—	3	—	2,608	—
Total reconciling items included in operating expenses	755	738	882	5,080	3,725
Non-GAAP operating expenses	<u>\$ 7,313</u>	<u>\$ 6,779</u>	<u>\$ 8,842</u>	<u>\$ 30,334</u>	<u>\$ 35,372</u>
Reconciliation of GAAP and non-GAAP net income (loss)					
GAAP net income (loss)	\$ 337	\$ (1,242)	\$ (3,167)	\$ (11,107)	\$ (10,570)
Reconciling items included in cost of revenue	58	76	49	1,974	182
Reconciling items included in operating expenses	755	738	882	5,080	3,725
Tax effect of non-GAAP adjustments	8	(10)	—	—	—
Non-GAAP net income (loss)	<u>\$ 1,158</u>	<u>\$ (438)</u>	<u>\$ (2,236)</u>	<u>\$ (4,053)</u>	<u>\$ (6,663)</u>
Non-GAAP net income (loss) per share:					
Basic	<u>\$ 0.04</u>	<u>\$ (0.02)</u>	<u>\$ (0.08)</u>	<u>\$ (0.14)</u>	<u>\$ (0.27)</u>
Diluted	<u>\$ 0.04</u>	<u>\$ (0.02)</u>	<u>\$ (0.08)</u>	<u>\$ (0.14)</u>	<u>\$ (0.27)</u>
Non-GAAP weighted average shares outstanding:					
Basic	<u>28,684</u>	<u>28,313</u>	<u>27,697</u>	<u>28,276</u>	<u>25,088</u>
Diluted	<u>30,244</u>	<u>28,313</u>	<u>27,697</u>	<u>28,276</u>	<u>25,088</u>

* Our non-GAAP gross profit, non-GAAP gross profit margin, non-GAAP operating expenses, non-GAAP net income (loss) and non-GAAP net income (loss) per share differs from GAAP gross profit, GAAP operating expenses, GAAP net income (loss) and GAAP net income (loss) per share due to the exclusion of restructuring expenses, stock-based compensation expense and additional amortization of a non-cancelable prepaid royalty. Pixelworks' management believes the presentation of non-GAAP gross profit, non-GAAP operating expenses, non-GAAP net income (loss) and non-GAAP net income (loss) per share provides useful information to investors regarding Pixelworks' results of operations which allows investors an alternative evaluation of underlying cash flow dynamics. Pixelworks' management also uses each of these non-GAAP measures internally as an alternative evaluation of underlying cash flow dynamics. Pixelworks, however, cautions investors to consider these non-GAAP financial measures in addition to, and not as a substitute for, our GAAP financial measures.

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

	Three Months Ended			Twelve Months Ended	
	December 31,	September 30,	December 31,	December 31,	December 31,
	2016	2016	2015	2016	2015
Reconciliation of GAAP net income (loss) and adjusted EBITDA					
GAAP net income (loss)	\$ 337	\$ (1,242)	\$ (3,167)	\$ (11,107)	\$ (10,570)
Stock-based compensation	806	784	931	2,662	3,921
Restructuring	7	30	—	4,392	—
Additional amortization of non-cancelable prepaid royalty	—	—	—	—	(14)
Tax effect of non-GAAP adjustments	8	(10)	—	—	—
Non-GAAP net income (loss)	\$ 1,158	\$ (438)	\$ (2,236)	\$ (4,053)	\$ (6,663)
EBITDA adjustments:					
Depreciation and amortization	\$ 828	\$ 816	\$ 1,038	\$ 3,466	\$ 4,263
Interest expense and other, net	101	99	129	406	446
Non-GAAP provision (benefit) for income taxes	(10)	193	128	355	320
Adjusted EBITDA	\$ 2,077	\$ 670	\$ (941)	\$ 174	\$ (1,634)

* Adjusted EBITDA differs from GAAP net income (loss) due to the exclusion of restructuring expenses, stock-based compensation expense, additional amortization of a non-cancelable prepaid royalty, interest expense and other, net, income tax provision (benefit) and depreciation and amortization. Pixelworks' management believes the presentation of adjusted EBITDA provides useful information to investors regarding Pixelworks' results of operations which allows investors an alternative evaluation of underlying cash flow dynamics and core operating results and are used by Pixelworks' management for these purposes. Pixelworks, however, cautions investors to consider these non-GAAP financial measures in addition to, and not as a substitute for, our GAAP financial measures.

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

	December 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,622	\$ 26,591
Accounts receivable, net	3,118	5,988
Inventories	2,803	3,266
Prepaid expenses and other current assets	736	644
Total current assets	26,279	36,489
Property and equipment, net	3,793	6,543
Other assets, net	785	810
Total assets	<u>\$ 30,857</u>	<u>\$ 43,842</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,734	\$ 2,944
Accrued liabilities and current portion of long-term liabilities	7,860	8,528
Current portion of income taxes payable	140	221
Short-term line of credit	—	3,000
Total current liabilities	9,734	14,693
Long-term liabilities, net of current portion	194	831
Income taxes payable, net of current portion	1,880	1,942
Total liabilities	11,808	17,466
Shareholders' equity	19,049	26,376
Total liabilities and shareholders' equity	<u>\$ 30,857</u>	<u>\$ 43,842</u>

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Pixelworks, Inc. Q4 2016 Conference Call
February 2, 2017

Operator

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s fourth quarter 2016 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 fourth quarter and fiscal year 2016.

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, February 2, 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, 2015, 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 stock-based compensation expense, additional amortization of a non-cancelable prepaid royalty, as well as certain charges related to the Company's announced restructuring in the first half of 2016. 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 outlined in today press release, we achieved another consecutive quarter of meaningful improvement to both our top and bottom line results. Fourth quarter revenue increased 17 percent sequentially and 19 percent year-on-year to \$16 million, reaching the high-end of our guidance range. Gross margin expanded 500 basis points over the prior quarter, and OpEx was also well contained during the quarter. As a result, Pixelworks achieved profitability in the quarter on both a GAAP and non-GAAP basis for the first time in over three years. Additionally, we generated \$3 million in cash from operations, which significantly exceeded our stated goal from earlier in the year to achieve cash flow breakeven by the fourth quarter.

The profitability and cash flow generated in Q4 demonstrate the significant progress we have made over the last few quarters to enhance our operating model and dramatically improve the Company's underlying fundamentals.

Importantly, I want to emphasize that these results do NOT reflect a pull-in of the EOL, or end-of-life, revenue that we are now fully booked to recognize in the first half of 2017. I will let Steve provide the details on our updated EOL revenue expectations,

however the contribution from these end-of-life products will ultimately add approximately \$8 million in non-dilutive capital to our balance sheet over the next 2 to 3 quarters.

For those of you that have been following Pixelworks for a while, this is a different company than even one year ago. As we look back over the past year, we took a number of important steps that have fundamentally changed the business. Most notable, we meaningfully reduced our expense run-rate, and we also streamlined our product portfolios to focus our sales organization on high-value, higher-margin products - enabling the company to substantially increase its strategic focus.

With this stronger foundation now in place, our goal going forward is to deliver year-over-year revenue growth, excluding the anticipated EOL contribution, while maintaining a goal of profitability throughout 2017.

Now let's shift to an update on the underlying businesses and respective end market commentary.

Projector

First in our projector business - order patterns and overall demand was strong across a wide-group of customers, reflecting a continued normalization of the market following the previous inventory and supply channel disruptions experienced in early 2016. Additionally, our most recent indications would suggest that the supply chain remains relatively tight, with potential slack inventory being below average and at a healthy level as we enter 2017.

Also, I'd like to mention our completed streamlining of this business one last time, which included the EOL for certain legacy projector chips in our portfolio. Consistent with prior expectations we have experienced nearly universal acceptance of our proposed product transitions aimed at converting customers toward higher value products. This should result in a net favorable impact to ASPs and margins over the intermediate to longer-term.

Consistent with both our comments last quarter and our first quarter guidance, our interpretation of recent customer order patterns and inventory in the channel, we continue to expect and model internally for an effectively normal revenue cycle with typical seasonality in 2017.

Mobile

Now turning to our mobile business - where the level of activity as well as the quality of engagements with prospective mobile OEM customers has increased noticeably over the past several months following the additions we made to our sales team in the second half of the year. Revenue contribution from Mobile was still modest in Q4, but slightly higher compared to prior quarters, as we continued to ship volume production in support of multiple ASUS devices.

As part of recent activity, we have been increasing the sampling our 3rd generation Iris processor with a targeted list of select Asia OEMs. The level and scope of our discussions with several of these OEMs has advanced significantly, and I am more convinced than ever we have the right people and sales team in place today, and they are focused on the right levers to drive incremental adoption of Pixelworks' mobile technology.

More specifically, as part of these engagements with OEMs, we are actively pursuing a number of potential new opportunities on mobile devices. And as stated last quarter, the current sampling of our 3rd generation chip gives us the potential to win designs on higher unit volumes mobile devices - some of which are targeted for launches in the second half of 2017. Although feedback to-date from these OEMs continues to be both constructive and encouraging, I want to be clear that it is still too early to declare victory. Regardless of the outcome of these existing engagements, we are continuing to develop advanced new features and functionally to enhance the value proposition of our Iris processors, while simultaneously working to minimize the common design-in hurdles encountered by mobile OEMs.

Importantly, we also continue to make meaningful progress on our dual go-to-market strategy aimed at monetizing Pixelworks' technology beyond pure device sales. As discussed on previous calls, we believe that seeding intermediate-to-longer-term opportunities through proactive conversations with potential partners as well as other players in the ecosystem is complementary to our device strategy. Although many of these conversations are still in the early stages, today we are actively engaged with a diverse set of future potential partners and/or customers across the broader mobile and video streaming ecosystem - these include ongoing discussions with mobile SoC companies, DDI and panel manufacturers, creators of original video content, as well as companies looking to deliver higher-quality over-the-top streaming video to almost any device connected to the internet. It's too early to know which, or if any, of these conversations might lead to commercial engagements, however our plan is to begin highlighting some of the Pixelworks' technology behind a few of these new applications over the next couple of quarters.

Concluding Comments

To conclude my remarks, we exited 2016 with very solid results and we are starting off 2017 with better fundamentals in place than the company has had in a number of years. Even more encouraging, I am confident and have every indication that the year ahead will be one of profitable growth for Pixelworks. In our core Projector business, we fully expect to deliver year-on-year growth with a bias towards higher margins, and we are also well positioned to capture incremental market share throughout the year. And in mobile, although it is always difficult to predict the exact timing of technology adoption, I can tell you we have a highly accomplished group of individuals that are very focused and excited about converting current engagement into revenue generating customers. As 2017 unfolds, I look forward to updating you on our progress on driving broader adoption of Pixelworks technology across a greater number of customers and video-centric applications.

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

Steve Moore

Thank you, Todd.

Revenue for the fourth quarter of 2016 was \$16 million compared to \$13.7 million in the third quarter. The sequential improvement in Q4 revenue primarily reflects increased sales of chips sold into our digital projection market, as the demand strengthened and the market returned to more normal order patterns from the previous quarter's supply channel disruption.

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

Revenue from Digital projection was approximately \$14.4 million.

Mobile revenue was approximately \$390,000.

And revenue from legacy chips sold into the TV-Panel market was approximately \$1.2 million.

Non-GAAP gross profit margin was 53.6% in the fourth quarter of 2016, compared to 48.6% in the third quarter of 2016. Gross margin was higher quarter-on-quarter primarily due to a more favorable revenue mix specific to products sold into the digital projection market.

Non-GAAP operating expenses were \$7.3 million in the fourth quarter of 2016, compared to \$6.8 million in the third quarter of 2016.

Adjusted EBITDA was \$2.1 million for the fourth quarter of 2016, compared to \$670,000 in the third quarter of 2016. 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 \$1.2 million, or four cents per diluted share, in the fourth quarter of 2016, as compared to a non-GAAP net loss of \$438,000, or a loss of two cents per share, in the prior quarter.

Moving to the balance sheet, we ended the fourth quarter with cash and cash equivalents of approximately \$19.6 million, an increase of \$3 million from the end of the third quarter, largely reflecting positive cash flow from operating activities during the fourth quarter.

Other balance sheet metrics include day's sales outstanding of 18 days at quarter-end, compared to 26 days at the end of the third quarter. Inventory turns during the fourth quarter increased to 10.1 times, compared to 8.7 times in the prior quarter.

Guidance

Turning now to Guidance.

For the first quarter of 2017, we expect revenue to increase to a range of between \$22 and \$23 million. This range reflects our expectation for a sequential decline in projector revenue that is consistent with typical seasonality in our core digital projection business, offset by approximately \$9 million in end-of-life revenues. We expect revenue from mobile to be roughly flat with the last quarter.

EOL revenue in Q1 2017 will be approximately \$2 million higher than previously expected due to additional orders that we received, and accepted, after the original EOL deadline. For Q2, we continue to expect EOL revenue in excess of what would otherwise be our normalized quarterly revenue to be approximately \$5 million, as previously discussed. Note, we do not expect any meaningful EOL revenue after Q2 2017.

We expect gross profit margin for the first quarter to be in a range of between 53% and 55% on both a GAAP and non-GAAP basis.

In terms of operating expenses, we expect the first quarter to range between \$9 and \$10 million on a GAAP basis, and \$8 to \$9 million on a non-GAAP basis. Operating expenses will be higher in the first quarter of 2017, compared with our expected run rate in subsequent quarters, primarily due to additional expenses we plan to incur related to the development of a next-generation chip.

As a result, we expect first quarter GAAP net income to be in a range of between 5 cents and 12 cents per diluted share; and we expect non-GAAP net income to be in a range of between 8 cents and 15 cents per diluted share.

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