

**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): July 28, 2016

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))
-

Item 2.02 Results of Operations and Financial Condition.

On July 28, 2016, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and six month periods ended June 30, 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 July 28, 2016 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 July 28, 2016.
99.2	Pixelworks, Inc. Second Quarter Results Conference Call Script dated July 28, 2016.

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: July 28, 2016

/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 July 28, 2016.
99.2	Pixelworks, Inc. Second Quarter Results Conference Call Script dated July 28, 2016.



Pixelworks Reports Second Quarter 2016 Financial Results

SAN JOSE, Calif., July 28, 2016 -- Pixelworks, Inc. (NASDAQ: PXLW), an innovative provider of video display processing technology, today announced financial results for the second quarter ended June 30, 2016.

Second Quarter Highlights

- Revenue increased 12% sequentially to \$12.6 million;
- ASUS ZenPad Z8 launched by tier-one North American carrier incorporates Iris video display processor;
- Iris incorporated into first-ever smartphone with launch of ASUS ZenFone 3 Ultra; and
- David Sabo joined Pixelworks in June as Senior Vice President, Business Development and IP Licensing.

For the second quarter of 2016, revenue was \$12.6 million, compared to \$11.2 million in the prior quarter and \$15.1 million in the second quarter of 2015. Revenue during the second quarter reflected the expected sequential increase in the sale of chips sold into both the digital projection and mobile markets.

On a GAAP basis, gross profit margin in the second quarter of 2016 was 51.0%, compared to 32.2% in the first quarter of 2016 and 48.0% in the second quarter of 2015. Second quarter 2016 GAAP operating expenses were \$7.8 million, compared to \$12.1 million in the previous quarter and \$9.7 million in the second quarter of 2015.

For the second quarter of 2016, the Company recorded a GAAP net loss of \$1.6 million, or \$0.06 per share, compared to a GAAP net loss of \$8.6 million, or \$0.31 per share, in the first quarter of 2016, which included \$4.3 million, or \$0.15 per share, in charges related to the Company's announced restructuring. GAAP net loss was \$2.8 million, or \$0.12 per share, in the second quarter of 2015.

On a non-GAAP basis, gross profit margin in the second quarter of 2016 was 51.6%, compared to 48.0% in the first quarter of 2016 and 48.3% in the second quarter of 2015. Second quarter 2016 gross margin was higher compared to the prior periods primarily due to a more favorable product mix specific to revenue generated in the digital projection market. Second quarter 2016 operating expenses on a non-GAAP basis were \$7.0 million, compared to \$9.2 million in the previous quarter and \$8.8 million in the second quarter of 2015. Lower operating expenses compared to the prior periods reflected the net benefit of the Company's announced restructuring.

For the second quarter of 2016, the Company recorded a non-GAAP net loss of \$756,000, or \$0.03 per share, compared to a non-GAAP net loss of \$4.0 million, or \$0.14 per share, in the first quarter of 2016 and non-GAAP net loss of \$1.9 million, or \$0.08 per share, in the second quarter of 2015. Adjusted EBITDA in the second quarter of 2016 was a positive \$0.3 million, compared to a negative \$2.9 million in the previous quarter and a negative \$0.5 million in the second quarter of 2015.

"Our second quarter results exceeded expectations across all metrics, reflecting the team's strong execution as well as the benefits of our recent restructuring and cost reduction efforts," stated Todd DeBonis, president and CEO of Pixelworks. "We also made significant forward progress on our mobile initiative during the quarter, with the announcement of our first design win for both a smart phone, the ASUS ZenFone 3 Ultra, and a tier-one North American carrier launched tablet, the ZenPad Z8. Our renewed sales focus combined with the mobile market naturally moving in the direction of higher quality video is driving a decided increase in the amount of interest and opportunities for Pixelworks' technology."

Business Outlook for the Third Quarter of 2016

The Company's expectations for the third quarter of 2016 include:

- Revenue to be between \$13 million and \$14 million;
- Gross profit margin of approximately 48% to 50% on both a GAAP basis and non-GAAP basis; and
- Operating expenses of \$8 million to \$9 million on a GAAP basis and \$7 million to \$8 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 47925364. 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 4, 2016, and can be accessed by calling 855-859-2056 and using passcode 47925364.

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 loss and non-GAAP net loss per share, which excludes restructuring charges and stock-based compensation expense, which are both required under GAAP. The press release also reconciles GAAP net loss and adjusted EBITDA, which Pixelworks defines as GAAP net loss before interest expense and other, net, income tax provision, 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 our mobile initiative and the mobile market, and statements with respect to the business outlook for the third quarter of 2016, including revenue, gross margin and operating expenses, 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			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
	2016	2016	2015	2016	2015
Revenue, net	\$ 12,580	\$ 11,167	\$ 15,078	\$ 23,747	\$ 29,470
Cost of revenue (1)	6,165	7,575	7,844	13,740	15,269
Gross profit	6,415	3,592	7,234	10,007	14,201
Operating expenses:					
Research and development (2)	4,504	5,675	6,105	10,179	12,423
Selling, general and administrative (3)	3,180	3,865	3,584	7,045	7,471
Restructuring	67	2,538	—	2,605	—
Total operating expenses	7,751	12,078	9,689	19,829	19,894
Loss from operations	(1,336)	(8,486)	(2,455)	(9,822)	(5,693)
Interest expense and other, net	(107)	(99)	(105)	(206)	(212)
Loss before income taxes	(1,443)	(8,585)	(2,560)	(10,028)	(5,905)
Provision for income taxes	117	57	236	174	255
Net loss	\$ (1,560)	\$ (8,642)	\$ (2,796)	\$ (10,202)	\$ (6,160)
Net loss per share - basic and diluted	\$ (0.06)	\$ (0.31)	\$ (0.12)	\$ (0.36)	\$ (0.26)
Weighted average shares outstanding - basic and diluted	28,167	27,936	23,539	28,051	23,434

(1) Includes:

Stock-based compensation	\$ 46	\$ 44	\$ 42	\$ 90	\$ 95
Restructuring	27	1,723	—	1,750	—
(2) Includes stock-based compensation	392	429	429	821	918
(3) Includes stock-based compensation	268	(107)	422	161	958

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, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	\$ 6,415	\$ 3,592	\$ 7,234	\$ 10,007	\$ 14,201
Stock-based compensation	46	44	42	90	95
Restructuring	27	1,723	—	1,750	—
Total reconciling items included in cost of revenue	73	1,767	42	1,840	95
Non-GAAP gross profit	\$ 6,488	\$ 5,359	\$ 7,276	\$ 11,847	\$ 14,296
Non-GAAP gross profit margin	51.6%	48.0%	48.3%	49.9%	48.5%
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	\$ 7,751	\$ 12,078	\$ 9,689	\$ 19,829	\$ 19,894
Reconciling item included in research and development:					
Stock-based compensation	392	429	429	821	918
Reconciling item included in selling, general and administrative:					
Stock-based compensation	268	(107)	422	161	958
Restructuring	67	2,538	—	2,605	—
Total reconciling items included in operating expenses	727	2,860	851	3,587	1,876
Non-GAAP operating expenses	\$ 7,024	\$ 9,218	\$ 8,838	\$ 16,242	\$ 18,018
Reconciliation of GAAP and non-GAAP net loss					
GAAP net loss	\$ (1,560)	\$ (8,642)	\$ (2,796)	\$ (10,202)	\$ (6,160)
Reconciling items included in cost of revenue	73	1,767	42	1,840	95
Reconciling items included in operating expenses	727	2,860	851	3,587	1,876
Tax effect of non-GAAP adjustments	4	(2)	(46)	2	(66)
Non-GAAP net loss	\$ (756)	\$ (4,017)	\$ (1,949)	\$ (4,773)	\$ (4,255)
Non-GAAP net loss per share - basic and diluted	\$ (0.03)	\$ (0.14)	\$ (0.08)	\$ (0.17)	\$ (0.18)
Non-GAAP weighted average shares outstanding - basic and diluted	28,167	27,936	23,539	28,051	23,434

* Our non-GAAP gross profit, non-GAAP gross profit margin, non-GAAP operating expenses, non-GAAP net loss and non-GAAP net loss per share differs from GAAP gross profit, GAAP operating expenses, GAAP net loss and GAAP net loss per share due to the exclusion of restructuring expenses and stock-based compensation expense. Pixelworks' management believes the presentation of non-GAAP gross profit, non-GAAP operating expenses, non-GAAP net loss and non-GAAP net loss per share provides useful information to investors regarding Pixelworks' results of operations by allowing investors to better evaluate underlying cash flow dynamics. Pixelworks' management also uses each of these non-GAAP measures internally to better evaluate 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			Six Months Ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Reconciliation of GAAP net loss and adjusted EBITDA					
GAAP net loss	\$ (1,560)	\$ (8,642)	\$ (2,796)	\$ (10,202)	\$ (6,160)
Stock-based compensation	706	366	893	1,072	1,971
Restructuring	94	4,261	—	4,355	—
Tax effect of non-GAAP adjustments	4	(2)	(46)	2	(66)
Non-GAAP net loss	\$ (756)	\$ (4,017)	\$ (1,949)	\$ (4,773)	\$ (4,255)
EBITDA adjustments:					
Depreciation and amortization	\$ 832	\$ 990	\$ 1,041	\$ 1,822	\$ 2,139
Interest expense and other, net	107	99	105	206	212
Non-GAAP provision for income taxes	113	59	282	172	321
Adjusted EBITDA	\$ 296	\$ (2,869)	\$ (521)	\$ (2,573)	\$ (1,583)

* Adjusted EBITDA differs from GAAP net loss due to the exclusion of restructuring expenses, stock-based compensation expense, interest expense and other, net, income tax provision and depreciation and amortization. Pixelworks' management believes the presentation of adjusted EBITDA provides useful information to investors regarding Pixelworks' results of operations by allowing investors to better evaluate 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)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,750	\$ 26,591
Accounts receivable, net	3,846	5,988
Inventories	3,345	3,266
Prepaid expenses and other current assets	730	644
Total current assets	25,671	36,489
Property and equipment, net	4,927	6,543
Other assets, net	763	810
Total assets	\$ 31,361	\$ 43,842
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,836	\$ 2,944
Accrued liabilities and current portion of long-term liabilities	8,475	8,528
Current portion of income taxes payable	199	221
Short-term line of credit	—	3,000
Total current liabilities	11,510	14,693
Long-term liabilities, net of current portion	565	831
Income taxes payable, net of current portion	1,860	1,942
Total liabilities	13,935	17,466
Shareholders' equity	17,426	26,376
Total liabilities and shareholders' equity	\$ 31,361	\$ 43,842

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

Pixelworks, Inc. Q2 2016 Conference Call
July 28, 2016

Operator

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s second 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 management and your host, Pixelworks' Chief Financial Officer, Mr. Steve Moore.

Steve Moore

Good afternoon and thank you for joining us. With me on today's call is Todd DeBonis, Pixelworks' 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 ended June 30, 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, July 28, 2016, 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 loss, and net loss per share. These non-GAAP measures exclude stock-based compensation expense as well as certain charges related to the Company's announced restructuring earlier this year. 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 loss and GAAP net 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.

As a framework for the call today, I'll begin with a brief high-level recap of our results, followed by a few notable developments during the quarter, and then I'll provide a structured update on the five focus items that I outlined as part of last quarter's call.

Starting with the results - Revenue in the quarter was \$12.6 million, above our guidance range of \$11.5 to \$12.5 million. Both gross margin and operating expenses came in better than expected, resulting in loss per share improving to (\$0.06) on a GAAP basis and (\$0.03) on a Non-GAAP basis. Reflecting on these results, there are two key takeaways that I would like to highlight. First, the quarter came in at or above our guidance on all metrics - so we delivered on what we said we were going to do. And two, despite second quarterly revenue being \$2.5 million lower year-over-year, we cut the loss per share in half compared to the year-ago quarter.

I would like to highlight these two aspects of our second quarter results as they demonstrate the beginning of a meaningful shift that puts the company on a path towards profitability. Admittedly, it's only one quarter and we have plenty of work ahead of us, but I'm pleased with our team's execution during the quarter - And we expect to build on this progress over the coming quarters.

Turning briefly to product announcements - we announced two new ASUS products during the second quarter that incorporate Pixelworks' Iris 2. First, the ASUS ZenFone 3 Ultra, which features a 6.8 inch LCD panel with full HD resolution display. This represents the first-ever launch of a smartphone that incorporates Pixelworks' Iris device and True Clarity video display processing technology. Also during the quarter, a tier-one North American carrier and ASUS announced the launch of the ZenPad Z8, which features Iris' innovative video quality enhancements on a 7.9 inch tablet with 2K resolution. We began shipping volume production in support of both ASUS platforms during the quarter, however total mobile revenue was still a relatively small contributor to our overall results. We look forward to furthering our strong collaboration with ASUS in future platforms.

Also notable during the quarter, we hired David Sabo, as a Senior Vice President of Business Development and Licensing. Dave brings a wealth of knowledge and expertise to the Pixelworks team from prior roles at both Atmel and Synaptics. At Atmel, Dave led the development of capacitive touch subsystems programs; and at Synaptics his responsibilities included the development of display products, display integration touch, as well as InCell and discrete touch ASIC development. Prior to Synaptics, he worked for nearly a decade at National Semiconductor, where he held numerous marketing and technical management roles. In his new position at Pixelworks, Dave will lead our new business and IP licensing initiative, which I will talk about more in a few minutes. It is great to have Dave on our team, and I'm confident that he'll prove to be a valuable asset.

Before providing an update on the 5 key focus items as outlined last quarter, I first want to address the current environment in the broader Projector market, including some of the cross-currents that we've seen over the past several months. Revenue in our Projector business increased 12% sequentially, reflecting the continued signs of more normal order patterns and a progressive recovery from the market-wide inventory correction that began in the fourth quarter of last year. While we anticipate continued sequential improvement in our Projector business during the third quarter, growth is expected to be constrained as a result of the mid-April earthquake that disrupted Sony's production of 3LCD panels for certain Projector customers. Although difficult to forecast with precision, the intermediate-term impact is expected to be largely transitory - as any resulting loss in market share among OEMs should ultimately be captured by other Pixelworks customers. I will let Steve provide additional color, but we generally expect the incremental unit volume that would have naturally materialized in Q3 to work its way into unit volumes during subsequent quarters.

With that said, I would now like to walk through an update on the 5 focus items that we outlined last quarter, the first being to finalize the operational elements of the restructuring we announced in April.

As of quarter-end, effectively all of the heavy-lifting has been completed, including all related personnel changes, the re-allocation of our selling resources, as well as the realignment of our internal reporting structure. Although this work required many difficult decisions, the benefits are already evident in our second quarter results that I highlighted a moment ago. Importantly, with this process behind us, we can now turn our full focus to the go-forward strategy and execution.

Our second focus item was to begin transitioning certain projector customers from their dependency on legacy chips to our newer generation SoCs. As discussed last quarter, we've identified a series of opportunities to streamline our projector business and respective product portfolio. This involved pursuing an end-of-life process for multiple legacy chips in our portfolio, many of which represented either relatively low volumes and/or less attractive ASPs. As part of this process, we notified all of our affected customers and successfully initiated the end-of-life process on the targeted devices during the second quarter. Our customers have generally been very cooperative, and consistent with prior expectations, we do not anticipate any impact to Pixelworks' market share. As a result of these actions, we will be able to service the same existing customer base with a more targeted state-of-the-art product portfolio, while continuing to deliver world-class support from our highly-skilled team. We expect affected customers to make last-time-buys of these earlier generation devices, which will favorably impact Projector revenue in early 2017.

The third area of focus was to formally discontinue the selling and support of devices sold into various non-strategic applications that we group into our TV/Panel market. Historically, these applications included ultra-high definition TVs and HD Monitors, as well as numerous other lower volume, niche embedded applications. Similar to our legacy Projector chips, during the second quarter we completed all of the necessary steps to implement an end-of-life process for this series of chips sold into these smaller, fragmented end markets. Based on fair and standard end-of-life terms that we agreed upon with our customers, we expect to see a number of last-time-buys that will benefit revenue in the first or second quarter of 2017.

Turning to the fourth and fifth key focus items, which are both related to our mobile effort including the strengthening of our mobile sales capability, particularly in China, and then conducting a comprehensive review of our larger go-to-market strategy for mobile.

In terms of our mobile sales capability, since I joined the company in early 2016 I've continued to add sales and marketing resources that support our mobile effort. It's important to emphasize that our primary goal in mobile is to achieve broader adoption of Pixelworks technology across multiple customers and a variety of mobile devices. In line with this strategy and as mentioned last quarter, we now have a Vice President of Sales in China, who is largely focused on opportunities with mid-to-high-end smartphone OEMs in China. In 2016 the pockets of growth in the Smartphone market are coming from Greater China - and I'm pleased by the level of engagement we have generated to-date. And then most recently, as I mentioned earlier we brought on Dave Sabo in June to head-up business development and IP licensing opportunities. Combined with our reallocation of other sales and marketing resources, we've significantly strengthened our mobile sales capability over the past 6 months and now have an experienced team in place to execute on our mobile initiatives.

Now, for our review of our go-to-market strategy for mobile. We have been intently focused and engaged on evaluating our mobile strategy over the last several months - And although our evaluation of our mobile strategy is still in progress, I do want to provide my current perspective on the opportunity that exists for image/video processing on mobile devices, as well as the optimal approach for Pixelworks to capture a meaningful portion of what is a large but also evolving market opportunity.

Today higher resolutions and video quality on mobile devices are becoming increasingly relevant - with consumers continuing to expect/demand more from their mobile devices, and OEMs anxiously seeking new ways to differentiate their products. I believe there are multiple ways that Pixelworks can target and capture its fair-share of this growing multi-stage opportunity in mobile through a combination of both device sales and IP licensing.

Although Pixelworks has successfully used both approaches at various times in the past in different end markets, it's fair to say that the company's primary focus has historically been on the design and sale of devices that deliver cutting-edge video quality. I continue to believe that selling innovative video processing devices is a viable strategy for Pixelworks today and going forward, and we will absolutely continue investing in our mobile device sales effort as well as new product development. In fact, a chip sale can often be crucial to driving awareness and adoption of new technology, especially in an emerging market such as video processing on mobile devices. A discrete chip solution helps to accommodate early adopters who can commercially validate the technology; it also provides for valuable customer feedback, as well as the ability to more quickly address rapidly shifting technology and feature preferences with mobile OEMs.

That said, given the basic economics of today's semiconductor industry as well as the mobile device industry, there's always an ongoing push to drive down cost, size and power consumption. Therefore, over the intermediate to longer-term, it is our belief that video processing on mobile devices would eventually be integrated - either into the application processor or as part of more advanced mobile display panels. This potential integration is most likely at least a couple of years away, however I believe it's important for Pixelworks to be in front of this probable transition by taking the steps now to proactively engage with OEMs and other component suppliers in the mobile ecosystem on prospective IP licensing and partnership opportunities.

Most importantly, being highly successful at selling chips alone potentially overlooks the larger and more prolonged opportunity that a supplemental licensing model can offer.

Therefore to successfully drive increased adoption while also sustaining the mobile market opportunity for Pixelworks, it's important that our go-to-market strategy consist of defined commitments to both silicon, especially in the near-term, and an IP licensing/royalty model over the intermediate-term. In my view, the more successful we are with our Iris chip-based solution, the more opportunity it affords us to further advance our technology and increase awareness in the short-term. Then, over the intermediate-term, IP licensing could be highly effective at increasing the slope of the adoption curve and significantly broaden customer reach by leveraging other players in the industry. Following our recent addition of Dave Sabo and a dedicated effort to actively pursue IP licensing opportunities, I believe Pixelworks now has the foundation in place to successfully pursue both chip and IP licensing strategies in mobile simultaneously.

Finally, longer-term there continue to be other potential opportunities and applications for Pixelworks technology in adjacent markets. We have focused R&D efforts around a few of these longer-term opportunities, which will continue to be a part of my ongoing evaluation of our go-to-market strategy.

To conclude my prepared remarks, I am encouraged by the progress the team has made. With the operational components of the restructuring now complete, we have significantly adjusted the revenue level required to achieve cash flow breakeven, which we remain committed to achieving by year-end. Additionally, we have taken the necessary steps to strengthen our sales capabilities and also position the company for continued growth for the balance of the year. In mobile, our go-to-market strategy remains focused on driving increased adoption/sales of Iris, while simultaneously ramping our new dedicated IP licensing effort. This renewed sales focus combined with the mobile market naturally moving in the direction of higher quality video is driving increased interest and opportunities for Pixelworks.

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

Steve Moore

Thank you, Todd.

Revenue for the second quarter of 2016 was \$12.6 million compared to revenue of \$11.2 million in the first quarter. The sequential improvement in Q2 revenue reflected increased sales of chips sold into both our digital projection and mobile markets, as well as relatively stable revenue contribution quarter-over-quarter from legacy products that we sell into our TV-panel market.

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

Revenue from Digital projection was \$11.2 million.

Mobile revenue was approximately \$350,000.

And revenue from legacy chips sold into the TV/Panel market was approximately 1.1 million. As previously indicated, we expect contribution from this legacy business to decline in the future following certain end-of-life orders that we anticipate to largely play-out over the next three-to-four quarters.

Non-GAAP gross profit margin was 51.6% in the second quarter, compared to 48.0% in the first quarter of 2016.

Non-GAAP operating expenses were \$7.0 million in the second quarter, compared to \$9.2 million in the first quarter of 2016.

Restructuring charges excluded from Non-GAAP gross margin and Non-GAAP operating expense totaled less than \$100,000 during the second quarter, compared to approximately \$4.3 million in the first quarter.

Adjusted EBITDA was a positive \$296,000 for the second quarter of 2016, compared to a negative \$2.9 million in the first quarter. A reconciliation of adjusted EBITDA to GAAP net loss may be found in today's press release.

On a non-GAAP basis the Company reported a net loss of \$756,000, or a loss of three cents per share, in the second quarter of 2016, as compared to a non-GAAP net loss of \$4 million, or a loss of 14 cents per share, in the prior quarter. In addition to excluding stock based compensation expense, the net loss in the first quarter also excluded \$4.3 million, or \$0.15 per share, in charges related to our previously announced restructuring.

Moving to the balance sheet, we ended the second quarter with cash and cash equivalents of approximately \$17.8 million. Note however, unlike in recent quarters we had no outstanding balance on our working capital line of credit at quarter-end. Cash and cash equivalents at the end of the first quarter were \$22.9 million, which included a balance of \$3 million on our line of credit. Comparing the respective quarter ending cash balances, net cash declined by just over \$2 million - ultimately reflecting a smaller decline than the total employee severance of approximately \$2.5 million we incurred as part of our restructuring earlier this year.

Other balance sheet metrics include day's sales outstanding of 28 days at quarter-end, compared to 46 days at the end of the first quarter. The sequential decline in DSO was largely related to the timing of shipments and payments across the two most recent quarters. Inventory turns during the second quarter were stable at approximately 8.8 times, compared to around 8.5 times in the prior quarter.

Guidance

For the third quarter of 2016, we expect revenue to be in a range of between \$13 and \$14 million. This range reflects the expectation of revenue contribution from mobile to be roughly flat quarter-over-quarter, and continued sequential revenue growth in digital projection in spite of the anticipated weakness at certain customers related to the disrupted production of 3LCD panels at Sony following an earthquake in April. Although it's difficult to precisely forecast the size and the exact timing of the anticipated negative impact, we estimate that third quarter revenue could have been approximately \$2 million higher without the impact of the disrupted production.

We expect gross profit margin for the quarter to range between 48% to 50% on a non-GAAP and GAAP basis.

In terms of operating expenses, we expect the third quarter to range between \$7 and \$8 million on a non-GAAP basis, and \$8 to \$9 million on a GAAP basis.

And finally, we expect a non-GAAP third quarter net loss of between 1 and 7 cents per share; and we expect a GAAP net loss of between 4 cents and 11 cents per share.

That concludes our prepared comments. We will now open the call for questions.