

**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): April 25, 2020

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.)

**226 Airport Parkway, Suite 595
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))

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock	PXLW	The Nasdaq Global Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 1.01 Entry into a Definitive Material Agreement.

On April 25, 2020, Pixelworks, Inc. (the “Company”), entered into a loan with Silicon Valley Bank as the lender (“Lender”) in an aggregate principal amount of \$796,242 (the “Loan”) pursuant to the Paycheck Protection Program (the “PPP”) under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”).

The Loan is evidenced by a promissory note (the “Note”) dated April 25, 2020, and matures 2 years from the disbursement date. The Note bears interest at a rate of 1.000% per annum, with the first six months of interest deferred. Principal and interest are payable monthly commencing 6 months after the disbursement date and may be prepaid by the Company at any time prior to maturity with no prepayment penalties. The Note contains customary events of default relating to, among other things, payment defaults or breaches of the terms of the Note. Upon the occurrence of an event of default, the Lender may require immediate repayment of all amounts outstanding under the Note.

Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of loans granted under the PPP. The Loan is subject to forgiveness to the extent proceeds are used for payroll costs, including payments required to continue group health care benefits, and certain rent, utility, and mortgage interest expenses (collectively, “Qualifying Expenses”), pursuant to the terms and limitations of the PPP. The Company intends to use the Loan amount for Qualifying Expenses. However, no assurance is provided that the Company will obtain forgiveness of the Loan in whole or in part. The foregoing description of the Note does not purport to be complete and is qualified in its entirety by reference to the full text of the Note, which is filed as Exhibit 10.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Item 2.02 Results of Operations and Financial Condition.

On April 30, 2020, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three month period ended March 31, 2020 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 April 30, 2020 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 2.03 Creation of a Direct Financial Obligation of a Registrant.

Reference is made to the disclosure under Item 1.01 above, which is hereby incorporated in this Item 2.03 by reference.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
10.1	<u>Promissory Note between the Company and Silicon Valley Bank dated April 25, 2020.</u>
99.1	<u>Press Release issued by Pixelworks, Inc. dated April 30, 2020.</u>
99.2	<u>Pixelworks, Inc. First Quarter Results Conference Call Script dated April 30, 2020.</u>

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: April 30, 2020

/s/ Elias N. Nader

Elias N. Nader
*Vice President and Chief Financial
Officer*

Silicon Valley Bank

**U.S. Small Business Administration
Paycheck Protection Program
Note**

SBA Loan No.	2197787203	
SBA Loan Name	Borrower Legal Name	PIXELWORKS INC
	DBA	
Date	4/25/2020	
Loan Amount	\$796,262	
Interest Rate	1.0% per annum	
Borrower	PIXELWORKS INC	
Operating Company	Not applicable	
Lender	Silicon Valley Bank	

1. PROMISE TO PAY.

In return for the Loan, Borrower promises to pay to the order of Lender the amount of \$796,242 Dollars, interest on the unpaid principal balance, and all other amounts required by this Note.

2. DEFINITIONS.

“Collateral” means any property taken as security for payment of this Note or any guarantee of this Note.

“CARES Act” means the Coronavirus Aid, Relief, and Economic Security Act.

“Guarantor” means each person or entity that signs a guarantee of payment of this Note.

“Loan” means the loan evidenced by this Note.

“Loan Documents” means the documents related to this loan signed by Borrower, any Guarantor, or anyone who pledges collateral.

“Paycheck Protection Program” means loan program created by Section 1102 of the CARES Act.

“Per Annum” means for a year deemed to be comprised of 360 days.

“SBA” means the Small Business Administration, an Agency of the United States of America.

3. PAYMENT TERMS: Borrower must make all payments at the place Lender designates. The payment terms for this Note are:

A. Conditions Precedent to Disbursement of Loan Proceeds.

Before the funding of the Loan, the following conditions must be satisfied:

1. Lender has approved the request for the Loan.

2. Lender has received approval from SBA to fund the Loan.

- B. No Payments During Deferral Period. There shall be no payments due by Borrower during the six-month period beginning on the date of this Note (the "Deferral Period"). However, during the Deferral Period interest will accrue at the Interest Rate on the unpaid principal balance computed on the basis of the actual number of days elapsed in a year of 360 days.
- C. Principal and Interest Payments. Commencing one month after the expiration of the Deferral Period, and continuing on the same day of each month thereafter until the Maturity Date, Borrower shall pay to Lender monthly payments of principal and interest, each in such equal amount required to fully amortize the principal amount outstanding on the Note on the last day of the Deferral Period by the Maturity Date.
- D. Maturity Date. On the date which is twenty-four (24) months from the date of this Note (the "Maturity Date"), Borrower shall pay to Lender any and all unpaid principal plus accrued and unpaid interest plus interest accrued during the Deferral Period. This Note will mature on the Maturity Date.
- E. Not a Business Day. If any payment is due on a date for which there is no numerical equivalent in a particular calendar month then it shall be due on the last day of such month. If any payment is due on a day that is a Saturday, Sunday or any other day on which California chartered banks are authorized to be closed, the payment will be made on the next business day.
- F. Payment Allocation. Payments shall be allocated among principal and interest at the discretion of Lender unless otherwise agreed or required by applicable law (including the CARES Act). Notwithstanding, in the event the Loan, or any portion thereof, is forgiven pursuant to the Paycheck Protection Program under the federal CARES Act, the amount so forgiven shall be applied to principal.
- F. Prepayments. Borrower may prepay this Note at any time without payment of any penalty or premium.
- G. Borrower Certifications.

Borrower certifies to Lender as follows:

1. Current economic uncertainty makes this Loan necessary to support the ongoing operations of Borrower.
2. Loan funds will be used by Borrower to retain its workers and maintain its payroll or make its mortgage payments, lease payments, and utility payments.
3. For the period beginning on February 15, 2020 and ending on December 31, 2020, Borrower did not receive, and agrees it will not apply for or receive, another loan under the Paycheck Protection Program.
4. Borrower was in operation on February 15, 2020 and (i) had employees for whom it paid salaries and payroll taxes or (ii) paid independent contractors as reported on a 1099-Misc.
5. Borrower has reviewed and understands Sections 1102 and 1106 of the CARES Act and the related guidelines and has completed the Application, including Borrower's eligibility in conformity with those provisions.
6. Borrower has taken its "affiliates" (as defined by the SBA) into account when determining the number of employees and the total amount of loans permitted under the Paycheck Protection Program.

7. Borrower is a small business concern or is otherwise eligible to receive a covered loan.
8. The person who has completed and signed the application, this Note and the Loan Documents has been validly authorized by Borrower to enter into borrowings on behalf of Borrower.

H. Agreements.

Borrower understands and agrees, and waives and releases Lender, its affiliates and their respective directors, officers, agents and employees, as follows:

1. The Loan will be made under the SBA's Paycheck Protection Program. Accordingly, this Note and the other Loan Documents must be submitted to and approved by the SBA. There is limited funding available under the Paycheck Protection Program and accordingly, all applications submitted will not be approved by the SBA.
2. Lender is participating in the Payroll Protection Program to help businesses impacted by the economic impact from COVID-19. However, Lender anticipates high volumes and there may be processing delays and system failures along with other issues that interfere with submission of Borrower's application to SBA. Lender does not represent or guarantee that it will submit the application while SBA funding remains available under the Payroll Protection Program or at all. Borrower hereby agrees that Lender is not responsible or liable to Borrower or any of its affiliates (i) if the Lender does not submit Borrower's application to the SBA until after the date that SBA stops approving applications under the Paycheck Protection Program, for any reason or (ii) if the application is not processed by Lender. Borrower forever releases and waives any claims against Lender, its affiliates and their respective directors, officers, agents and employees concerning failure to obtain the Loan. This release and waiver applies to, but is not limited to, any claims concerning Lender's (i) pace, manner or systems for processing or prioritizing applications, or (ii) representations by Lender regarding the application process, the Paycheck Protection Program, or availability of funding. This agreement to release and waiver supersedes any prior communications, understandings, agreements or communications on the issues set forth herein.
3. Forgiveness of the Loan is only available for principal that is used for the limited purposes that expressly qualify for forgiveness under SBA requirements, and that to obtain forgiveness, Borrower must request forgiveness from the Lender, provide documentation in accordance with the SBA requirements, and certify that the amounts Borrower is requesting to be forgiven qualify under those requirements. Borrower also understands that Borrower shall remain responsible under the Loan for any amounts not forgiven, and that interest payable under the Loan will not be forgiven, but that the SBA may pay the Loan interest on forgiven amounts.
4. Forgiveness of the Loan is not automatic and Borrower must request forgiveness of the Loan from Lender. Borrower is not relying on Lender for its understanding of the requirements for forgiveness such as eligible expenditures, necessary records/documentation, or possible reductions due to changes in number of employees or compensation. Borrower agrees that will consult the SBA's program materials and consult with its own counsel regarding the criteria forgiveness.
5. The Loan Documents are subject to review, and Borrower may not receive the Loan. The Loan also remains subject to availability of funds under the SBA's Payment Protection Program, and to the SBA issuing an SBA loan number.
6. Borrower's liability under this Note will continue with respect to any amounts SBA may pay Bank based on an SBA guarantee of this Note. Any agreement with Bank under which SBA may guarantee this Note does not create any third party rights or benefits for Borrower and, if SBA pays

Bank under such an agreement, SBA or Bank may then seek recovery from Borrower of amounts paid by SBA.

7. Lender reserves the right to modify the Note Amount based on documentation received from Borrower.
8. Borrower's execution of this Note has been duly authorized by all necessary actions of its governing body. The person signing this Note is duly authorized to do so on behalf of Borrower.
9. This Note shall not be governed by any existing or future credit agreement or loan agreement with Lender. The liabilities guaranteed pursuant to any existing or future guaranty in favor of Lender shall not include this Note. The liabilities secured by any existing or future security instrument in favor of Lender shall not include the Loan.
10. The proceeds of the Loan will be used to retain workers and maintain payroll or make mortgage interest payments, lease payments, and utility payments, as specified under the Paycheck Protection Program Rule. Borrower understands that if the funds are knowingly used for unauthorized purposes, the federal government may hold Borrower legally liable, such as for charges of fraud.

Electronic Execution of Loan Documents.

The words "execution," "signed," "signature" and words of like import in this Note and any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based record keeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

4. DEFAULT:

Borrower is in default under this Note if Borrower does not make a payment when due under this Note, or if Borrower or Operating Company:

- A. Fails to do anything required by this Note and other Loan Documents;
- B. Defaults on any other loan with Lender;
- C. Does not preserve, or account to Lender's satisfaction for, any of the Collateral or its proceeds;
- D. Does not disclose, or anyone acting on their behalf does not disclose, any material fact to Lender or SBA;
- E. Makes, or anyone acting on their behalf makes, a materially false or misleading representation to Lender or SBA;
- F. Defaults on any loan or agreement with another creditor, if Lender believes the default may materially affect Borrower's ability to pay this Note;
- G. Fails to pay any taxes when due;
- H. Becomes the subject of a proceeding under any bankruptcy or insolvency law;
- I. Has a receiver or liquidator appointed for any part of their business or property;
- J. Makes an assignment for the benefit of creditors;

- K. Has any adverse change in financial condition or business operation that Lender believes may materially affect Borrower's ability to pay this Note;
- L. Reorganizes, merges, consolidates, or otherwise changes ownership or business structure without Lender's prior written consent; or
- M. Becomes the subject of a civil or criminal action that Lender believes may materially affect Borrower's ability to pay this Note.

5. LENDER'S RIGHTS IF THERE IS A DEFAULT.

Without notice or demand and without giving up any of its rights, Lender may:

- A. Require immediate payment of all amounts owing under this Note;
- B. Collect all amounts owing from any Borrower or Guarantor;
- C. File suit and obtain judgment.
- D. Take possession of any Collateral; or
- E. Sell, lease, or otherwise dispose of, any Collateral at public or private sale, with or without advertisement.

6. LENDER'S GENERAL POWERS.

Without notice and without Borrower's consent, Lender may:

- A. Bid on or buy the Collateral at its sale or the sale of another lienholder, at any price it chooses;
- B. Incur expenses to collect amounts due under this Note, enforce the terms of this Note or any other Loan Document, and preserve or dispose of the Collateral. Among other things, the expenses may include payments for property taxes, prior liens, insurance, appraisals, environmental remediation costs, an reasonable attorney's fees and costs. If Lender incurs such expenses, it may demand immediate repayment from Borrower or add the expenses to the principal balance;
- C. Release anyone obligated to pay this Note;
- D. Compromise, release, renew, extend or substitute any of the Collateral; and
- E. Take any action necessary to protect the Collateral or collect amounts owing on this Note.

7. WHEN FEDERAL LAW APPLIES; GOVERNING LAW; FORUM SELECTION.

When SBA is the holder, this Note will be interpreted and enforced under federal law, including SBA regulations. Lender or SBA may use state or local procedures for filing papers, recording documents, giving notice, foreclosing liens, and other purposes. By using such procedures, SBA does not waive any federal immunity from state or local control, penalty, tax, or liability. As to this Note, Borrower may not claim or assert against SBA any local or state law to deny any obligation, defeat any claim of SBA, or preempt federal law.

8. SUCCESSORS AND ASSIGNS.

Under this Note, Borrower and Operating Company includes its successors, and Lender includes its successors and assigns.

9. GENERAL PROVISIONS.

- A. All individuals and entities signing this Note are jointly and severally liable.
- B. Borrower waives all suretyship defenses.
- C. Borrower must sign all documents necessary at any time to comply with the Loan Documents and to enable Lender to acquire, perfect, or maintain Lender's liens on Collateral.
- D. Lender may exercise any of its rights separately or together, as many times and in any order it chooses. Lender may delay or forgo enforcing any of its rights without giving up any of them.
- E. Borrower may not use an oral statement of Lender or SBA to contradict or alter the written terms of this Note.
- E. If any part of this Note is unenforceable, all other parts remain in effect.
- F. To the extent allowed by law, Borrower waives all demands and notices in connection with this Note, including presentment, demand, protest, and notice of dishonor. Borrower also waives any defenses based upon any claim that Lender did not obtain any guarantee; did not obtain, perfect, or maintain a lien upon Collateral; impaired Collateral; or did not obtain the fair market value of Collateral at a sale.

10. STATE-SPECIFIC PROVISIONS:

If the SBA is not the holder, this Note shall be governed by and construed in accordance with the laws of the State of California where the main office of Lender is located. MATTERS REGARDING INTEREST TO BE CHARGED BY LENDER AND THE EXPORTATION OF INTEREST SHALL BE GOVERNED BY FEDERAL LAW (INCLUDING WITHOUT LIMITATION 12 U.S.C. SECTIONS 85 AND 1831(u) AND THE LAW OF THE STATE OF CALIFORNIA. Borrower agrees that any legal action or proceeding with respect to any of its obligations under this Note may be brought by Lender in any state or federal court located in the State of California, as Lender in its sole discretion may elect. Borrower submits to and accepts in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of those courts. Borrower waives any claim that the State of California is not a convenient forum or the proper venue for any such suit, action or proceeding. The extension of credit that is the subject of this Note is being made by Lender in California.

11. BORROWER'S NAME(S) AND SIGNATURE(S).

BORROWER CERTIFIES THAT THE INFORMATION PROVIDED IN THIS APPLICATION AND THE INFORMATION PROVIDED IN ALL SUPPORTING DOCUMENTS AND FORMS IS TRUE AND ACCURATE IN ALL MATERIAL RESPECTS. BORROWER UNDERSTANDS THAT KNOWINGLY MAKING A FALSE STATEMENT TO OBTAIN A GUARANTEED LOAN FROM SBA IS PUNISHABLE UNDER THE LAW, INCLUDING UNDER 18 USC 1001 AND 3571 BY IMPRISONMENT OF NOT MORE THAN FIVE YEARS AND/OR A FINE OF UP TO \$250,000; UNDER 15 USC 645 BY IMPRISONMENT OF NOT MORE THAN TWO YEARS AND/OR A FINE OF NOT MORE THAN \$5,000; AND, IF SUBMITTED TO A FEDERALLY INSURED INSTITUTION, UNDER 18 USC 1014 BY IMPRISONMENT OF NOT MORE THAN THIRTY YEARS AND/OR A FINE OF NOT MORE THAN \$1,000,000.

By signing below, each individual or entity becomes obligated under this Note as Borrower.

Funds will be credited to your Deposit

Account Number ending in:

[*]

BORROWER:

By:	<u>/s/ Haley Green</u>
Name:	<u>Haley Green</u>
Title:	<u>Authorized Signer</u>
Date:	<u>4/25/2020</u>



Pixelworks Reports First Quarter 2020 Financial Results

Mobile Revenue Increases Year-over-Year, Driven by Expanded Customers and Adoption in Smartphones

SAN JOSE, Calif., April 30, 2020 - Pixelworks, Inc. (NASDAQ: PXLW), a leading provider of innovative video and display processing solutions, today announced financial results for the first quarter ended March 31, 2020.

First Quarter Financial Highlights

- Mobile revenue increased 64% year-over-year, driven by shipments of 5th generation visual processors and Soft Iris solutions in support of a growing number of newly launched smartphones
- Implemented cost containment measures in proactive response to COVID-19 pandemic, reducing cash operating expenses by more than 10% from the midpoint of guidance while retaining 100% of employees
- Secured additional liquidity by drawing down \$5.2 million from existing line of credit to end quarter with \$20.4 million in cash, cash equivalents and short-term investments

First Quarter and Recent Business Highlights

- Announced new collaboration with Qualcomm to integrate OTA local TV with 5G broadband video solutions
- Black Shark incorporated Iris visual processor in newly launched gaming smartphones, the Black Shark 3 and Black Shark 3 Pro
- OPPO launched Find X2 and Find X2 Pro smartphones, the first to feature 120 Hz variable refresh rate displays enabled by Pixelworks' 5th generation visual processor and optimization software
- HMD Global launched Nokia 8.3 5G smartphone with PureDisplay technology powered by Pixelworks
- Extended partnership with TCL Communication, resulting in development and launch of the TCL 10 Pro, TCL 10L and TCL 10 5G smartphones
- OnePlus 8 and OnePlus 8 Pro smartphones launched featuring 120 Hz Fluid Displays leveraging Pixelworks' 5th generation visual processor and optimization software

President and CEO of Pixelworks, Todd DeBonis, commented, "As disclosed in our early April press release, first quarter results were in-line or above our original guidance despite the extremely challenging business environment. During the quarter, we proactively took action in response to the COVID-19 pandemic to protect our employees and successfully implemented remote working procedures in multiple geographies. We have remained fully operational following the extended Chinese New Year, including active engagement in support of our customers as well as ongoing new product development efforts. Additionally, we've further protected the Company's financial position in preparation for a potentially prolonged economic recovery by reducing cash operating expenses by more than 10% compared to the midpoint of our guidance.

"Our team has remained focused and continued to aggressively execute on our mobile growth initiatives, which collectively have demonstrated substantial traction in recent months. Year-to-date, our Iris visual processors and software have been incorporated into a total of 10 smartphones launched by five OEM customers, two of which were first-time customers. In addition to many of these recently launched devices receiving excellent third-party reviews, Pixelworks' advanced display technology enabled several of these new smartphones to achieve industry records for mobile display quality and performance.

"While we anticipate the near-term environment to remain challenging across our target markets as our customers struggle with heightened uncertainty related to the COVID-19 pandemic, end market demand and potential supply constraints, Pixelworks is well positioned to benefit from renewed momentum as the business landscape begins to normalize."

First Quarter 2020 Financial Results

Revenue in the first quarter of 2020 was \$13.8 million, compared to \$16.0 million in the fourth quarter of 2019 and revenue of \$16.6 million in the first quarter of 2019. The sequential and year-over-year decline in revenue reflected a combination of first quarter seasonality and inventory corrections in the digital projector and video delivery markets, coupled with continued year-over-year growth in the mobile market.

On a GAAP basis, gross profit margin in the first quarter of 2020 was 49.2%, compared to 45.6% in the fourth quarter of 2019 and 50.9% in the first quarter of 2019. First quarter 2020 GAAP operating expenses were \$12.1 million, which included a \$0.6 million restructuring charge, compared to operating expenses of \$12.2 million in the fourth quarter of 2019 and \$11.9 million in the year-ago quarter.

For the first quarter of 2020, the Company recorded a GAAP net loss of \$5.4 million, or (\$0.14) per share, compared to a GAAP net loss of \$4.5 million, or (\$0.12) per share, in the fourth quarter of 2019 and GAAP net income of \$0.1 million, or \$0.00 per diluted share, in the year-ago quarter.

On a non-GAAP basis, first quarter 2020 gross profit margin was 52.1%, compared to 48.0% in the fourth quarter of 2019 and 53.3% in the year-ago quarter. First quarter 2020 non-GAAP operating expenses were \$9.7 million, compared to \$10.4 million in the fourth quarter of 2019 and \$10.3 million in the year-ago quarter.

For the first quarter of 2020, the Company recorded a non-GAAP net loss of \$2.6 million, or (\$0.07) per share, compared to a non-GAAP net loss of \$2.3 million, or (\$0.06) per share, in the fourth quarter of 2019 and a non-GAAP net loss of \$1.5 million, or (\$0.04) per share, in the first quarter of 2019.

Adjusted EBITDA in the first quarter of 2020 was a negative \$1.5 million, compared to a negative \$1.7 million in the fourth quarter of 2019 and a negative \$0.5 million in the year-ago quarter.

Business Outlook

The Company's current business outlook, including guidance for the second quarter of 2020, will be provided as part of the scheduled quarterly conference call.

Conference Call Information

Pixelworks will host a conference call today, April 30, 2020, at 2:00 p.m. Pacific Time, which can be accessed by calling 1-877-359-9508 and using passcode 6381659. A live audio webcast of the call can also be accessed by visiting the Company's investor page at www.pixelworks.com. For those unable to listen to the live webcast, it will be archived for approximately 90 days. A replay of the conference call will also be available through Thursday, May 7, 2020, and can be accessed by calling 1-855-859-2056 and using passcode 6381659.

About Pixelworks, Inc.

Pixelworks provides industry-leading content creation, video delivery and display processing solutions and technology that enable highly authentic viewing experiences with superior visual quality, across all screens - from cinema to smartphone and beyond. The Company has a 20-year history of delivering image processing innovation to leading providers of consumer electronics, professional displays and video streaming services. Pixelworks 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 exclude gain on sale of patents, inventory step-up and backlog amortization, amortization of acquired intangible assets, stock-based compensation expense, and restructuring expenses, 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 loss and adjusted EBITDA, which Pixelworks defines as GAAP net loss before interest income and other, net, income tax provision (benefit), 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 business 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.

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 video delivery businesses, including market movement and demand, customer engagements, growth in the mobile market, strategy, and additional guidance, particularly as to the business outlook and current market environment and the impact of the COVID-19 pandemic on the same. 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 execute on our strategy; competitive factors, such as rival chip architectures, introduction or traction by competing designs, or pricing pressures; the success of our products in expanding 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; our ability to attract and retain key personnel; and the impact of the COVID-19 pandemic on our business and on our suppliers and customers. 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 its Annual Report on Form 10-K for the year ended December 31, 2019 as well as subsequent SEC filings.

The forward-looking statements contained in this release are 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		
	March 31,	December 31,	March 31,
	2020	2019	2019
Revenue, net	\$ 13,774	\$ 16,023	\$ 16,648
Cost of revenue (1)	6,999	8,723	8,176
Gross profit	6,775	7,300	8,472
Operating expenses:			
Research and development (2)	6,267	6,724	6,472
Selling, general and administrative (3)	5,193	5,474	5,460
Restructuring	592	—	—
Total operating expenses	12,052	12,198	11,932
Loss from operations	(5,277)	(4,898)	(3,460)
Interest income and other, net	54	324	96
Gain on sale of patents	—	—	3,905
Total other income, net	54	324	4,001
Income (loss) before income taxes	(5,223)	(4,574)	541
Provision (benefit) for income taxes	176	(118)	408
Net income (loss)	\$ (5,399)	\$ (4,456)	\$ 133
Net income (loss) per share:			
Basic	\$ (0.14)	\$ (0.12)	\$ 0.00
Diluted	\$ (0.14)	\$ (0.12)	\$ 0.00
Weighted average shares outstanding:			
Basic	38,868	38,370	37,247
Diluted	38,868	38,370	38,692

(1) Includes:

Amortization of acquired intangible assets	298	298	298
Stock-based compensation	101	100	95
Inventory step-up and backlog amortization	—	—	12

(2) Includes stock-based compensation

648	611	661
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(3) Includes:

Stock-based compensation	1,073	1,086	933
Amortization of acquired intangible assets	76	76	84

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

	Three Months Ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Reconciliation of GAAP and non-GAAP gross profit			
GAAP gross profit	\$ 6,775	\$ 7,300	\$ 8,472
Amortization of acquired intangible assets	298	298	298
Stock-based compensation	101	100	95
Inventory step-up and backlog amortization	—	—	12
Total reconciling items included in gross profit	399	398	405
Non-GAAP gross profit	<u>\$ 7,174</u>	<u>\$ 7,698</u>	<u>\$ 8,877</u>
Non-GAAP gross profit margin	<u>52.1%</u>	<u>48.0%</u>	<u>53.3%</u>
Reconciliation of GAAP and non-GAAP operating expenses			
GAAP operating expenses	\$ 12,052	\$ 12,198	\$ 11,932
Reconciling item included in research and development:			
Stock-based compensation	648	611	661
Reconciling items included in selling, general and administrative:			
Stock-based compensation	1,073	1,086	933
Amortization of acquired intangible assets	76	76	84
Restructuring	592	—	—
Total reconciling items included in operating expenses	2,389	1,773	1,678
Non-GAAP operating expenses	<u>\$ 9,663</u>	<u>\$ 10,425</u>	<u>\$ 10,254</u>
Reconciliation of GAAP and non-GAAP net income (loss)			
GAAP net income (loss)	\$ (5,399)	\$ (4,456)	\$ 133
Reconciling items included in gross profit	399	398	405
Reconciling items included in operating expenses	2,389	1,773	1,678
Reconciling items included in total other income, net	—	—	(3,905)
Tax effect of non-GAAP adjustments	(25)	(49)	219
Non-GAAP net loss	<u>\$ (2,636)</u>	<u>\$ (2,334)</u>	<u>\$ (1,470)</u>
Non-GAAP net loss per share - basic and diluted	<u>\$ (0.07)</u>	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>
Non-GAAP weighted average shares outstanding - basic and diluted	<u>38,868</u>	<u>38,370</u>	<u>37,247</u>

*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					
	March 31,		December 31,		March 31,	
	2020		2019		2019	
	Dollars per share		Dollars per share		Dollars per share	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Reconciliation of GAAP and non-GAAP net income (loss)						
GAAP net income (loss)	\$ (0.14)	\$ (0.14)	\$ (0.12)	\$ (0.12)	\$ 0.00	\$ 0.00
Reconciling items included in gross profit	0.01	0.01	0.01	0.01	0.01	0.01
Reconciling items included in operating expenses	0.06	0.06	0.05	0.05	0.05	0.04
Reconciling items included in total other income, net	—	—	—	—	(0.10)	(0.10)
Tax effect of non-GAAP adjustments	—	—	—	—	0.01	0.01
Non-GAAP net loss	<u>\$ (0.07)</u>	<u>\$ (0.07)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>

*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		
	March 31, 2020	December 31, 2019	March 31, 2019
Reconciliation of GAAP and non-GAAP gross profit margin			
GAAP gross profit margin	49.2%	45.6%	50.9%
Amortization of acquired intangible assets	2.2	1.9	1.8
Stock-based compensation	0.7	0.6	0.6
Inventory step-up and backlog amortization	—	—	0.1
Total reconciling items included in gross profit	2.9	2.5	2.4
Non-GAAP gross profit margin	52.1%	48.0%	53.3%

*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		
	March 31,	December 31,	March 31,
	2020	2019	2019
Reconciliation of GAAP net income (loss) and adjusted EBITDA			
GAAP net income (loss)	\$ (5,399)	\$ (4,456)	\$ 133
Stock-based compensation	1,822	1,797	1,689
Restructuring	592	—	—
Amortization of acquired intangible assets	374	374	382
Tax effect of non-GAAP adjustments	(25)	(49)	219
Gain on sale of patents	—	—	(3,905)
Inventory step-up and backlog amortization	—	—	12
Non-GAAP net loss	<u>\$ (2,636)</u>	<u>\$ (2,334)</u>	<u>\$ (1,470)</u>
EBITDA adjustments:			
Depreciation and amortization	\$ 1,022	\$ 1,013	\$ 913
Non-GAAP interest income and other, net	(54)	(324)	(96)
Non-GAAP provision (benefit) for income taxes	201	(69)	189
Adjusted EBITDA	<u>\$ (1,467)</u>	<u>\$ (1,714)</u>	<u>\$ (464)</u>

*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)

	March 31, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,933	\$ 7,257
Short-term marketable securities	2,484	6,975
Accounts receivable, net	8,850	10,915
Inventories	4,540	5,401
Prepaid expenses and other current assets	2,067	1,689
Total current assets	35,874	32,237
Property and equipment, net	5,284	4,608
Operating lease right of use assets	7,494	5,434
Other assets, net	1,355	1,267
Acquired intangible assets, net	2,329	2,704
Goodwill	18,407	18,407
Total assets	\$ 70,743	\$ 64,657
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,297	\$ 818
Accrued liabilities and current portion of long-term liabilities	9,412	8,692
Short-term line of credit	5,157	—
Current portion of income taxes payable	200	164
Total current liabilities	17,066	9,674
Long-term liabilities, net of current portion	1,579	982
Operating lease liabilities, net of current portion	5,567	4,212
Income taxes payable, net of current portion	2,260	2,260
Total liabilities	26,472	17,128
Shareholders' equity	44,271	47,529
Total liabilities and shareholders' equity	\$ 70,743	\$ 64,657

Contacts:

Investor Contact

Shelton Group

Brett Perry

P: +1-214-272-0070

E: bperry@sheltongroup.com

Company Contact

Pixelworks, Inc.

Elias Nader

P: +1-408-200-9271

E: enader@pixelworks.com

Pixelworks, Inc. Q1 2020 Conference Call
April 30, 2020

Operator

Good day ladies and gentlemen, and welcome to Pixelworks Inc.'s first quarter 2020 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, instructions will be given for the 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. Elias Nader.

Elias Nader

Thank you. Good afternoon, everyone, and thank you for joining us today. With me on today's call is Todd DeBonis, Pixelworks' President and CEO. The purpose of today's conference call is to supplement the information provided in Pixelworks' press release issued earlier today announcing the company's financial results for the first quarter of 2020.

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, April 30, 2020. The company undertakes no obligation to update any such statements or 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, 2019, 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 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. Non-GAAP measures exclude gain on sale of patents, inventory step-up and backlog amortization, amortization of acquired intangible assets, stock-based compensation expense, and restructuring expense.

The company uses these non-GAAP measures internally to assess our operating performance. We believe 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.

Also included in the company's press release are definitions and reconciliations of GAAP to non-GAAP net 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, Elias and good afternoon to everyone joining us on today's call and webcast. I hope that you and your families have stayed safe and remain healthy during these unprecedented times. My sympathy and well wishes go out to all of those who have suffered loss or hardship associated with the COVID-19 pandemic, and I also want to sincerely thank the many individuals serving on the front-line to heal and care for others in the countless communities that have been impacted.

Given the current environment and heightened uncertainty, we accelerated our reporting this quarter by disclosing preliminary Q1 results in early April, along with a simultaneously published shareholder letter that provided real-time context on how the company was performing as well as responding to COVID-19 pandemic. Consistent with our preliminary indication, our first quarter results were solidly in-line or above our original guidance. A few of the notable highlights from our Q1 financials included: Mobile revenue grew 64% year-over-year, non GAAP gross margin expanded to approximately 52%, and we successfully implemented costs reductions resulting in operating expenses coming in approximately 10% lower than the midpoint of our guidance.

While I would encourage our long-term shareholders to refer to our recent filings and read my April 7th letter in its entirety, I want to take this opportunity to briefly reiterate several of the key points.

Pixelworks has operations in a number of countries with physical locations spanning across Asia and North America. During the quarter, we proactively responded to the global spread of the COVID-19 pandemic, making the safety and well-being of our roughly 225 employees our single highest priority. Beginning in China, which was impacted first, and then subsequently in other locations, we facilitated and effectively utilized remote working procedures to maintain all critical functions. Following the extended Chinese New Year, we reopened and gradually ramped staff in our Shanghai and Shenzhen offices. They have been fully operational since early March, including active engagement and support of our customers as well as ongoing new product development efforts.

Our employees in Taiwan, Japan and North America have remained fully operational throughout, however with the exception of Taiwan, we are continuing to work remotely, consistent with the current local and national guidelines in these geographies. Since the onset of the pandemic, our team has demonstrated tremendous agility and dedication to providing uninterrupted support to Pixelworks customers.

Without question, the impacts of the COVID-19 pandemic have been extraordinary and widespread, resulting in a more challenging business environment and heightened uncertainty for both customers and suppliers. In preparation for what is likely to be a more prolonged recovery of the global economy, we recently implemented a series of actions to further contain costs without impairing our ability to support customers and continue executing on our mobile growth initiatives. To briefly summarize, several of the key actions taken included:

- Elias and I have both taken a 10% reduction in our base salary
- The executive staff has agreed to a salary reduction of 10% in exchange for Restricted Stock Units (RSUs)
- The Executive Bonus program for 2020 was eliminated. All other bonus and sales incentive programs remain in place
- The Board of Directors have agreed to receive RSUs in lieu of cash director fees for full year 2020
- Annual Merit increases for all employees will be delayed by one quarter
- All new hiring has been temporarily put on hold, with the exception of a few critical open requisites
- With the exception of critical customer-related travel within China, all corporate travel has been suspended
- We extended the program offered to senior management to exchange up to 10% of quarterly base salary for RSU's to the rest of the organization, and the program was well received with 55% of employees participating.

As a result of these collective actions, we have immediately reduced cash operating expenses by more than 10% from the midpoint of our Q1 guidance. In further support of preserving cash, the company applied and very recently secured funds as part of the PPP loan program in the United States. I'll let Elias provide the details, however I will say that we are actively pursuing other similar relief programs in multiple geographies in which Pixelworks operates.

Turning to a brief update on each of our businesses, starting with Digital Projector. As discussed extensively in recent quarters, the broader projector market has consistently been confronted with a series of headwinds, resulting in the continuation of a prolonged inventory correction. Additionally, the first quarter has traditionally been a seasonally soft quarter, as Japanese OEM customers seek to reduce inventory prior to their fiscal year ending in March.

During the quarter, the impact from these underlying market dynamics was further exacerbated by the recent challenges associated with COVID-19. More specifically, some of our projector customers are currently production constrained due to a factory shutdown(s) and/or limitations on the supply of certain projector components. To be clear, none of these constraints involve components provided by Pixelworks, however we do expect these challenges to moderate production orders by certain customers in the near-term.

Despite these challenges, design-in activity has continued to move forward, as we actively migrate all of our projector customers to new SoC platforms - all of which have more favorable margin profiles than previous generation SoCs. Although end demand and production has been impaired in some areas, customers are still ordering and tender activity in China has started to pick-up in recent weeks.

In our Video Delivery business - As anticipated, we saw a continuation of the inventory correction for our customers' consumer PVRs and set-top boxes in Japan. Although revenue from video delivery increased sequentially in the first quarter, Japan has since taken more aggressive steps in response to the pandemic to control spread of the outbreak. In addition to putting downward pressure on consumer demand in the second quarter, the recent actions by the Japanese government increase the uncertainty on the timing and magnitude of the recovery in sales of PVRs in Japan.

Despite the headwinds to end market demand, we've remained closely engaged with existing customers and are supporting new program development. Additionally, in Q1 we signed a development contract with a new well-known consumer electronics brand in Japan to utilize our advanced 4K transcoder SoC for a Video Delivery platform. Here in the U.S., sales of our OTA transcoders for cord-cutter devices, including Air TV 2 remained solid following the record revenue from OTA in the fourth quarter. Also during the quarter, we announced our newest collaboration effort with Qualcomm on a joint-reference solution to incorporate OTA HDTV broadcast with 5G wireless broadband service offerings. More specifically, this jointly developed platform combines Pixelworks' industry-leading OTA transcoder and Qualcomm's Snapdragon X55 5G Modem-RF System, enabling network operators, internet service providers and OEMs to rapidly deploy a fully integrated and optimized solution in future home media equipment.

Shifting to updates on TrueCut and our broader Mobile business. We continue to make tangible progress on our TrueCut content mastering and delivery platform, and we generated significant momentum on multiple engagements with prospective customers and partners going into March. Although work-from-home mandates have slowed the pace of TrueCut customer evaluations, particularly those in California and Hollywood, we've remained focused and continued to advance internal R&D development efforts. In China we have largely resumed engagements with multiple prospective customers, including on-site visits and evaluations.

We also recently completed migration of the core TrueCut tools to our advanced GPU platform and the first build of our new standalone "on-prem" GPU centric processing systems, together bringing over 100x performance improvement, resolution support up to 8k and frame-rates of up to 120fps. These systems are now ready to be installed in support of evaluations by select studios and post production partners once their facilities reopen and it can be done in a safe manner.

In our broader Mobile business, we demonstrated a significant increase in adoption of our Iris visual processors and software across an expanded number of customers. Over the last two months, Pixelworks visual processors, our Soft Iris solution or a combination of both enabled advanced display quality in 10 smartphones launched by 5 different customers - together, exceeding the number of devices and customers announced for the full year in 2019.

Six of these newly launched devices represent expanded adoption by existing customers, including the Black Shark 3 and 3 Pro gaming smartphones. As Black Shark's latest generation of devices specifically targeted at gamers, the flagship gaming phones leverage Qualcomm's Snapdragon 865 Mobile Platform and were the first-ever smartphones to incorporate our newest 5th generation Iris processor. Then, building on the initial devices introduced last year as part of our ongoing collaboration agreement, in March HMD Global launched the Nokia 8.3 5G, featuring its PureDisplay-branded viewing experience powered by Pixelworks' visual processor. In April, we announced an extension of our partnership with TCL Communications in conjunction with the launch of three new TCL-branded smartphones - the TCL 10 Pro, 10L and TCL 10 5G.

Also notable were the series of recent launches by new customers. As the first devices developed under our previously announced multi-year collaboration agreement, in early March OPPO launched the Find X2 and Find X2 Pro. Both of the flagship smartphones incorporate impressive 120 Hz variable refresh rate displays enabled by Pixelworks 5th generation visual processor and include market leading content-optimized motion processing and always-HDR video viewing. Also unique to the devices, every Find X2 series display is factory tuned with Pixelworks high-efficiency color calibration software to provide industry-leading accuracy. This has resulted in the Find X2 Pro receiving the highest A+ rating from DisplayMate, being touted as having "close to textbook perfect calibration accuracy and performance that is visually indistinguishable from perfect."

And then most recently, OnePlus aggressively raised the bar on display quality for the entire smartphone industry with the launch of its OnePlus 8 and OnePlus 8 Pro featuring our most advanced display processing solutions. The OnePlus 8 Pro features a 120 Hz AMOLED Fluid Display with QHD+ resolution capable of up to 1,300 nits of peak brightness and is the first-ever smartphone to incorporate Pixelworks patented Dual MotionEngine® technology. Pushing the boundaries of the smartphone visual experience, the 8 Pro also includes Always HDR video, DC dimming, true flesh tones, tone adaptive display and Pixelworks color calibration. While earning the highest A+ rating from DisplayMate, the OnePlus 8 Pro shattered 13 industry records for visual quality, taking mobile entertainment to a whole new level.

As a group, effectively all of the recently launched smartphones have received excellent reviews for their display quality and performance. Considering the sheer size and resources available to the mobile industry as a whole, the industry-leading displays featured on many of these devices serve as broad validation of Pixelworks technology, our increasing value proposition, as well as a testament to our display expertise and the execution of our engineering and support teams.

While we've observed the timing of certain customer programs slip-out slightly over the past few months, we are still on track to be incorporated in at least 12 devices launched during the first half of 2020.

In terms of how the remainder of 2020 plays out in our Mobile business, we are currently cautiously optimistic. The overwhelmingly positive reviews of Pixelworks enabled displays on recently launched smartphones have created excitement and incremental interest in our advanced display technology. We continue to have a very solid pipeline of customer engagements and we are actively working to secure new and accelerate existing follow-on programs with current and prospective customers. Yet with all of the seemingly positive indicators, customer sell-through of newly launched devices and consumer end demand are still less than certain in the near-term given the current global economic backdrop. That said, overall we believe future momentum remains extremely positive.

To close out my prepared remarks, it goes without saying that the COVID-19 pandemic has brought about a significantly more challenging business environment as well as increased uncertainty. The management team of Pixelworks is focused on what we can control and will rapidly respond with proactive and definite actions to minimize the potential impact to our stakeholders. As a result of our recent and ongoing actions, I firmly believe that we've positioned the company positively given the current environment, while preserving the ability to regain strong momentum as the global economy and end market demand recover. I would also remind our shareholders that our customer base and the revenue contribution across our end markets is largely comprised of tier-one multinational companies. Moreover, Pixelworks is often a sole sourced provider of processors and solutions to many of our customers and under a scenario in which the environment becomes more challenging, the majority of these companies and their need for Pixelworks technology is not going away. Just as it had a beginning, the pandemic will also have an end - As an organization, we have an incredibly determined and capable team that is focused on continued execution and positioning Pixelworks to thrive in the post-COVID-19 world.

With that I'll hand the call over to Elias to review the first quarter financials and provide our guidance for the second quarter.

Elias Nader

Thank you, Todd.

Revenue for the first quarter of 2020 was \$13.8 million, compared to \$16.0 million in the fourth quarter of 2019, and compared to revenue of \$16.6 million in first quarter of 2019. First quarter 2020 revenue reflects a combination of seasonality and the ongoing inventory corrections in the digital projector and video delivery markets, partially offset by the anticipated year-over-year growth in the mobile market.

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

- Revenue from Digital Projector was approximately \$8.0 million.
- Video Delivery revenue was approximately \$3.2 million.
- Revenue from Mobile was approximately \$2.6 million, comprised largely of sales of our Iris visual processors and Soft Iris solutions.

Non-GAAP gross profit margin was 52.1% in the first quarter of 2020, compared to 48.0% in the fourth quarter of 2019 and 53.3% in the first quarter of 2019.

Non-GAAP operating expenses were \$9.7 million in the first quarter of 2020, compared to \$10.4 million in the fourth quarter of 2019 and \$10.3 million in the first quarter of 2019.

Adjusted EBITDA for the first quarter of 2020 was a negative \$1.5 million, compared to a negative \$1.7 million in the fourth quarter of 2019 and a negative \$0.5 million in the first quarter of 2019.

On a non-GAAP basis, first quarter 2020 net loss was \$2.6 million, or loss of 7 cents per share, compared to a net loss of \$2.3 million, or loss of 6 cents per share, in the prior quarter, and a net loss of \$1.5 million, or loss of 4 cents per share, in the first quarter of 2019.

Moving to the balance sheet, we ended the first quarter of 2020 with cash, cash equivalents and short-term investments of approximately \$20.4 million, compared to approximately \$14.2 million at the end of the fourth quarter of 2019. The sequential increase reflects a combination of collections on a significant portion of accounts receivable from certain customers in first week of January, and our draw down of approximately \$5.2 million from our \$10.0 million line of credit with Silicon Valley Bank during the quarter.

As Todd outlined, we've proactively taken a series of actions to strengthen the Company's financial position for a potentially more prolonged economic recovery. This included a meaningful reduction in operating expenses from our previous quarterly run-rate.

Additionally, we've recently completed applications for multiple government-backed stimulus programs across the geographies in which Pixelworks operates.

We have successfully secured the Paycheck Protection Program loan and received the associated funds earlier this week totaling \$797K, with favorable terms of 1.0% over 2 years and the first payment of this loan deferred for 6 months. We also received relief from the Chinese government in the form of lower employee benefit payments covering February through June 2020 in the amount of approximately \$150K. We plan to continue actively pursuing participation in other government programs across all applicable geographies.

As disclosed in our 8-K filed in early April 2020, with the exception of the CEO and CFO, the compensation program previously offered to the Executive team was recently extended to all employees to receive RSUs in lieu of a salary cut of 5.0% or 10.0%. The response was very positive with 55.0% participation, which we expect to result in cash savings to the Company of approximately \$300K in Q2. We will continue to offer this program every quarter until we are past this pandemic.

In terms of other balance sheet metrics for the first quarter, days sales outstanding were 58 days at quarter-end compared with 61 days at the end of the fourth quarter. Inventory turns was 5.2 times in the first quarter, compared to 7.8 times in the prior quarter.

Now turning to our guidance for the second quarter of 2020.

We expect the near-term environment to remain challenging as customers across our end markets work to navigate unique hurdles associated with the COVID-19 pandemic. We believe the impact on our customers will be varied but meaningful in the second quarter due to heightened uncertainty related to end market demand as well as potential supply and demand imbalances for certain components unrelated to those provided by Pixelworks. As such and based on current order trends and backlog, we expect revenue in the second quarter to be in a range of between \$8.5 million and \$11.5 million.

We expect non-GAAP gross profit margin of between 54.0% and 57.0%. The anticipated improvement in gross margin primarily reflects our expectation of particularly favorable product mix and product cost improvements in the second quarter.

We anticipate operating expenses in the second quarter to range between \$9.0 million and \$10.0 million on a non-GAAP basis.

Lastly, we expect second quarter non-GAAP EPS to be in the range of between a loss of (\$0.06) cents and a non-GAAP loss of (\$0.14) cents per share.

That concludes our prepared remarks, and we will now open the call for questions. Operator, please proceed with managing the Q&A session.