

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): November 7, 2013

PIXELWORKS, INC.

(Exact name of registrant as specified in its charter)

OREGON
(State or other jurisdiction of
incorporation)

000-30269
(Commission File Number)

91-1761992
(I.R.S. Employer
Identification No.)

224 Airport Parkway, Suite 400
San Jose, CA 95110
(408) 200-9200
(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On November 7, 2013, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and nine month periods ended September 30, 2013 and held a conference call to discuss the Company's financial results. The press release and conference call contain forward-looking statements regarding the Company, and include cautionary statements identifying important factors that could cause actual results to differ materially from those anticipated.

The press release issued November 7, 2013 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 99.1 Press Release issued by Pixelworks, Inc. dated November 7, 2013.

Exhibit 99.2 Pixelworks, Inc. Third Quarter Results Conference Call Script dated November 7, 2013.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PIXELWORKS, INC.

(Registrant)

Dated: November 7, 2013

/s/ Steven L. Moore

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



Pixelworks Reports Third Quarter 2013 Financial Results

SAN JOSE, Calif., November 7, 2013 -- Pixelworks, Inc. (NASDAQ: PXLW), a pioneer in innovative video and display processing technology, today announced financial results for the third quarter ended September 30, 2013.

Revenue for the third quarter 2013 was \$15.3 million, compared to \$9.6 million in the second quarter of 2013 and \$16.3 million in the third quarter of 2012. Revenue was up 60.2% sequentially driven by licensing revenue recognized during the third quarter and further ramping of the PA168 for the advanced TV market. Third quarter revenue was lower compared to the prior year quarter primarily as a result of lower chip revenue.

On a GAAP basis, gross profit margin in the third quarter of 2013 was 60.9%, compared to 48.4% in the prior quarter and 47.8% in the third quarter of 2012. Third quarter 2013 GAAP operating expenses were \$7.5 million, compared to \$9.3 million in the previous quarter and \$8.3 million in the third quarter of 2012. For the third quarter of 2013, the Company recorded GAAP net income of \$1.5 million, or \$0.07 per diluted share, compared to a GAAP net loss of \$4.9 million, or \$0.26 per share in the second quarter of 2013 and a GAAP net loss of \$0.4 million, or \$0.02 per share in the third quarter of 2012.

On a non-GAAP basis, gross profit margin in the third quarter of 2013 was 61.6%, compared to 49.7% in the prior quarter and 49.0% in the third quarter of 2012. The increase in gross margin during the quarter was primarily driven by the recognition of higher margin licensing revenue. Third quarter 2013 operating expenses on a non-GAAP basis were \$7.0 million, compared to \$8.7 million in the prior quarter and \$7.7 million in the third quarter of 2012. Operating expenses for the third quarter of 2013 and third quarter of 2012 include a reimbursement to research and development expense as the result of achieving certain milestones related to a previously announced customer co-development agreement. For the third quarter of 2013, the Company recorded non-GAAP net income of \$2.1 million, or \$0.10 per diluted share, compared with a net loss of \$4.2 million, or \$0.23 per share, in the prior quarter and net income of \$0.3 million, or \$0.02 per diluted share, in the third quarter of 2012.

"During the third quarter Pixelworks returned to profitability with revenue growing 60% sequentially driven by increased licensing and product revenues," said Bruce Walicek, President and CEO of Pixelworks. "We also achieved a number of other significant milestones during the quarter, as we captured a significant licensing engagement, delivered initial samples of our co-development chip, and completed a \$10 million equity offering that strengthened our balance sheet. With the achievement of these key milestones, a robust pipeline of customer engagements and licensing opportunities, and mobile products on the horizon, we are excited about the potential for Pixelworks and are well positioned for the future."

The Company will discuss the details of its business outlook for the fourth quarter of 2013 during its conference call scheduled for today, November 7, 2013, at 2:00 p.m. Pacific Time.

Conference Call Information

Pixelworks will host a conference call today at 2:00 p.m. Pacific Time, which can be accessed by calling 866-515-2912 and using passcode 35487225. 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, November 14, 2013, and can be accessed by calling 888-286-8010 and using passcode 19002753.

About Pixelworks, Inc.

Pixelworks creates, develops and markets video display processing technology for digital video applications that demand the very highest quality images. At design centers around the world, Pixelworks engineers constantly push video performance to keep manufacturers of consumer electronics and professional displays worldwide on the leading edge. The company is headquartered in San Jose, CA.

For more information, please visit the Company's Web site at www.pixelworks.com.

Note: Pixelworks and the Pixelworks logo are registered trademarks of Pixelworks, Inc.

Non-GAAP Financial Measures

This earnings release makes reference to non-GAAP gross profit margins, non-GAAP operating expenses, non-GAAP net income (loss) and non-GAAP net income (loss) per share which excludes stock-based compensation expense and additional amortization of a non-cancelable prepaid royalty, which are required under GAAP. The press release also reconciles GAAP net income (loss) and adjusted EBITDA which Pixelworks defines as GAAP net income (loss) before interest expense and other, net, income tax provision (benefit), depreciation and amortization, as well as the specific items listed above. The Company believes these non-GAAP measures provide a meaningful perspective on the Company's core operating results and underlying cash flow dynamics, but cautions investors to consider these measures in addition to, not as a substitute for, its consolidated financial results as presented in accordance with GAAP. A reconciliation between GAAP and non-GAAP financial measures is included in this earnings release which is available in the investor relations section of the Company's website.

Safe Harbor Statement

This release contains forward-looking statements, including, without limitation, the statements in Bruce Walicek's quote with respect to the Company continuing to see strong interest in its technology as demand for high resolution, high quality video increases across all displays, 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. 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. 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, 2012, our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 and 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			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	September 30,
	2013	2013	2012	2013	2012
Revenue, net	\$ 15,309	\$ 9,554	\$ 16,285	\$ 33,134	\$ 46,139
Cost of revenue (1)	5,987	4,932	8,497	15,213	22,883
Gross profit	9,322	4,622	7,788	17,921	23,256
Operating expenses:					
Research and development (2)	4,234	6,010	4,702	16,128	14,510
Selling, general and administrative (3)	3,296	3,274	3,557	10,168	11,368
Total operating expenses	7,530	9,284	8,259	26,296	25,878
Income (loss) from operations	1,792	(4,662)	(471)	(8,375)	(2,622)
Interest expense and other, net	(101)	(97)	(105)	(296)	(304)
Income (loss) before income taxes	1,691	(4,759)	(576)	(8,671)	(2,926)
Provision (benefit) for income taxes	182	165	(176)	149	(789)
Net income (loss)	\$ 1,509	\$ (4,924)	\$ (400)	\$ (8,820)	\$ (2,137)
Net income (loss) per share:					
Basic	\$ 0.07	\$ (0.26)	\$ (0.02)	\$ (0.46)	\$ (0.12)
Diluted	\$ 0.07	\$ (0.26)	\$ (0.02)	\$ (0.46)	\$ (0.12)
Weighted average shares outstanding:					
Basic	20,128	18,652	18,338	19,085	18,202
Diluted	21,290	18,652	18,338	19,085	18,202

(1) Includes:

Additional amortization of non-cancelable prepaid royalty	\$ 77	\$ 98	\$ 142	\$ 266	\$ 430
Stock-based compensation	29	31	42	100	118
(2) Includes stock-based compensation	209	215	214	682	619
(3) Includes stock-based compensation	301	354	296	1,041	793

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

	Three Months Ended			Nine Months Ended	
	September 30, 2013	June 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	\$ 9,322	\$ 4,622	\$ 7,788	\$ 17,921	\$ 23,256
Additional amortization of non-cancelable prepaid royalty	77	98	142	266	430
Stock-based compensation	29	31	42	100	118
Total reconciling items included in cost of revenue	106	129	184	366	548
Non-GAAP gross profit	<u>\$ 9,428</u>	<u>\$ 4,751</u>	<u>\$ 7,972</u>	<u>\$ 18,287</u>	<u>\$ 23,804</u>
Non-GAAP gross profit margin	<u>61.6%</u>	<u>49.7%</u>	<u>49.0%</u>	<u>55.2%</u>	<u>51.6%</u>
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	\$ 7,530	\$ 9,284	\$ 8,259	\$ 26,296	\$ 25,878
Reconciling item included in research and development:					
Stock-based compensation	209	215	214	682	619
Reconciling item included in selling, general and administrative:					
Stock-based compensation	301	354	296	1,041	793
Total reconciling items included in operating expenses	510	569	510	1,723	1,412
Non-GAAP operating expenses	<u>\$ 7,020</u>	<u>\$ 8,715</u>	<u>\$ 7,749</u>	<u>\$ 24,573</u>	<u>\$ 24,466</u>
Reconciliation of GAAP and non-GAAP net income (loss)					
GAAP net income (loss)	\$ 1,509	\$ (4,924)	\$ (400)	\$ (8,820)	\$ (2,137)
Reconciling items included in cost of revenue	106	129	184	366	548
Reconciling items included in operating expenses	510	569	510	1,723	1,412
Tax effect of non-GAAP adjustments	8	18	28	(17)	20
Non-GAAP net income (loss)	<u>\$ 2,133</u>	<u>\$ (4,208)</u>	<u>\$ 322</u>	<u>\$ (6,748)</u>	<u>\$ (157)</u>
Non-GAAP net income (loss) per share:					
Basic	<u>\$ 0.11</u>	<u>\$ (0.23)</u>	<u>\$ 0.02</u>	<u>\$ (0.35)</u>	<u>\$ (0.01)</u>
Diluted	<u>\$ 0.10</u>	<u>\$ (0.23)</u>	<u>\$ 0.02</u>	<u>\$ (0.35)</u>	<u>\$ (0.01)</u>
Non-GAAP weighted average shares outstanding:					
Basic	<u>20,128</u>	<u>18,652</u>	<u>18,338</u>	<u>19,085</u>	<u>18,202</u>
Diluted	<u>21,290</u>	<u>18,652</u>	<u>19,105</u>	<u>19,085</u>	<u>18,202</u>

* Our non-GAAP gross profit, non-GAAP operating expenses, non-GAAP net income (loss) and non-GAAP net income (loss) per share differs from GAAP gross profit, GAAP operating expenses, GAAP net income (loss) and GAAP net income (loss) per share due to the exclusion of stock-based compensation expense and additional amortization of a non-cancelable prepaid royalty. Pixelworks' management believes the presentation of non-GAAP gross profit, non-GAAP operating expenses, non-GAAP net income (loss) and non-GAAP net income (loss) per share provides useful information to investors regarding Pixelworks' results of operations 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			Nine Months Ended	
	September 30, 2013	June 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Reconciliation of GAAP net income (loss) and adjusted EBITDA					
GAAP net income (loss)	\$ 1,509	\$ (4,924)	\$ (400)	\$ (8,820)	\$ (2,137)
Stock-based compensation	539	600	552	1,823	1,530
Additional amortization of non-cancelable prepaid royalty	77	98	142	266	430
Tax effect of non-GAAP adjustments	8	18	28	(17)	20
Non-GAAP net income (loss)	\$ 2,133	\$ (4,208)	\$ 322	\$ (6,748)	\$ (157)
EBITDA adjustments:					
Depreciation and amortization	\$ 1,103	\$ 1,081	\$ 1,193	\$ 3,242	\$ 3,541
Interest expense and other, net	101	97	105	296	304
Non-GAAP provision (benefit) for income taxes	174	147	(204)	166	(809)
Adjusted EBITDA	<u>\$ 3,511</u>	<u>\$ (2,883)</u>	<u>\$ 1,416</u>	<u>\$ (3,044)</u>	<u>\$ 2,879</u>

* Adjusted EBITDA differs from GAAP net income (loss) due to the exclusion of stock-based compensation expense, additional amortization of a non-cancelable prepaid royalty, interest expense and other, net, income tax provision (benefit) and depreciation and amortization. Pixelworks' management believes the presentation of adjusted EBITDA provides useful information to investors regarding Pixelworks' results of operations 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)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,477	\$ 13,404
Accounts receivable, net	2,470	3,772
Inventories	2,269	2,702
Prepaid expenses and other current assets	1,270	1,727
Total current assets	27,486	21,605
Property and equipment, net	4,592	6,283
Other assets, net	3,067	1,653
Total assets	\$ 35,145	\$ 29,541
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,499	\$ 2,224
Accrued liabilities and current portion of long-term liabilities	11,525	8,666
Current portion of income taxes payable	147	207
Total current liabilities	14,171	11,097
Long-term liabilities, net of current portion	1,170	1,445
Income taxes payable, net of current portion	2,152	2,331
Total liabilities	17,493	14,873
Shareholders' equity	17,652	14,668
Total liabilities and shareholders' equity	\$ 35,145	\$ 29,541

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**Pixelworks, Inc. Q3 2013 Conference Call
November 7, 2013**

Steven Moore, CFO

Good afternoon and thank you for joining us. This is Steve Moore, Chief Financial Officer of Pixelworks. With me today is Bruce Walicek, President and CEO. The purpose of today's conference call is to supplement the information provided in our press release issued earlier today announcing the Company's financial results for the third quarter ended September 30, 2013.

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, November 7, 2013, 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, 2012, and subsequent SEC filings for a description of factors that could cause forward-looking statements to differ materially from actual results.

Additionally, the Company's press release and management's statements during this conference call will include discussions of certain measures and financial information in GAAP and non-GAAP terms, including gross margin, operating expenses, net income/loss, and net income/loss per share. These non-GAAP measures exclude stock-based compensation expense and additional amortization of a prepaid royalty. We use these non-GAAP measures internally to assess our operating performance. The Company believes these non-GAAP measures provide a meaningful perspective on our core operating results and underlying cash flow dynamics, but we caution investors to consider these measures in addition to, not as a substitute for, nor superior to, the Company's consolidated financial results as presented in accordance with GAAP.

Included in the Company's press release are definitions and reconciliations of GAAP to non-GAAP net income/loss and GAAP net income/loss to adjusted EBITDA, which provide additional details.

Bruce will begin today's call with a strategic update on the business, after which I will review our Q3 financial results and discuss our outlook for the fourth quarter of 2013.

Bruce Walicek, CEO

Thanks Steve. Good afternoon everyone and thank you for taking the time to join us today.

Q3 13 Recap

- Q3 2013 revenues of \$15.3M were up 60% over Q2, driven by growth in our product business as well as success in our licensing initiative.
- We returned to profitability, as all other Non-GAAP metrics came within the range of guidance, and we generated positive EBITDA, cash flow, and delivered EPS of \$0.10.
- Overall Book to Bill was greater than one, reflecting success in our licensing business and an improving environment as customers ramped the PA168, our next generation video processor, into volume production.
- Q3 was an important quarter on a number of fronts, as we achieved several major milestones that significantly improved our business and financial position:
 - During the quarter, we closed a \$10.3M license and services engagement for our advanced video technology. This is a significant milestone and validation of our technology and expertise, and reinforces our thesis regarding the growing importance and need for video processing.
 - We also completed a \$10M equity offering that further strengthened our balance sheet and significantly improved the financial position of the company.
 - We delivered initial samples of the advanced chip we are developing under our co-development partnership. This is an important milestone on this project and we are on track for volume production in the first half of next year, which we believe will result in significant market share gains in 2014.
- As mentioned last quarter, we continue to see strong demand for our technology, which points to the growing importance of our portfolio of advanced video display processing techniques and we continue to experience a robust licensing pipeline.
- Pixelworks has a 15 year legacy of innovation in video, with a portfolio of over 120 issued patents and we continue to focus on developing and advancing our Intellectual Property around the key areas of next generation video processing.
- Our 6th generation technology that powers the PA168 video processor handles the most demanding and difficult video quality problems and includes our patented halo free technology.
- The PA168 is in mass production and is targeted for Large Screen Ultra HD applications to help make the most of this new resolution standard by delivering the best Video Quality in the industry and TVs based on the PA168 are getting great reviews.
- Traditionally this type of video processing has typically been applied to large screens, but in 2014, Pixelworks will bring our industry-leading video expertise and innovation to all screens, and we are on track to deliver products in the first half of 2014.
- At CES in January we will demonstrate our 7th generation technology, designed to improve the video display quality of mobile applications to key industry partners and customers.

Trends

- With the increase of resolutions and media consumption rising across all screens, users are demanding the best visual experience for their content, regardless of the screen they're watching it on.
 - As manufacturers vie for market share, resolution is a key product feature and brand differentiation and the superior video picture quality Pixelworks' technology will provide will be a powerful advantage.
 - Resolutions are rising for every screen, and the devices with highest resolutions are setting the bar for every other device.
 - Today, large screens are just starting to move to 4Kx2K Ultra HD resolutions with mobile screens just now moving to HD.
 - As an indication of things to come, LG Display recently announced a Quad HD mobile display of 5.5" with 2Kx1K resolution and 538 PPI, 4 times the resolution of a mobile HD display and Japan Display announced a 12.1" display with 4K resolution and 365 PPI.
 - These are just a few of the data points confirming that we are just at the beginning of a massive wave of resolution increases across all screens.
-

- Video is a key element driving the transformation of these devices as more and more video is created and distributed, more devices are capable of displaying video, and more people are consuming video on an expanding variety of screens, and viewers are now watching multiple screens at the same time as well.
- With more screens delivering high resolution than ever, the number of pixels to be processed will continue growing exponentially.
- One contributing factor is the steady increase of camera resolutions, with some cell phone cameras now up to 41 megapixels, thus guaranteeing users will be creating more and more high resolution images and video.
- As mobile devices become more intelligent, to stay within the bounds of size and power consumption constraints, innovative approaches to high-efficiency video processing are needed, so that creating compelling video quality does not become a drag on overall system performance.
- Pixelworks has a track record of solving the most difficult video quality problems for large screens, and because this is all we do and because we do it better than anyone, we are in the best position to deliver the innovative solutions customers need to solve the video processing challenges of all screens.

Projection Market

- Last quarter we announced our VueMagic™ Mobile Presenter initiative with our partner Sony, who is a leader in the projection display market.
- Mobile connectivity is becoming a key feature for next-generation projectors, especially for the education market.
- Our VueMagic™ app is designed to offer wireless connectivity for mobile devices such as tablets, smartphones and ultrabooks, to projectors based on our Topaz platform,.
- Topaz design win momentum continues to be robust, and VueMagic™ is an additional value add to our customers that base their products on Topaz.
- During the quarter, five new Tier 1 projector customers committed to using VueMagic™ and will be rolling out in the coming quarters continuing the momentum of our VueMagic™ initiative
- Pixelworks is committed to innovative leadership in the projector market, and all of these new solutions and value-add capabilities have been introduced to continue to please our customers and drive market share.

Closing Summary

- In closing, Q3 2013 was a significant quarter as we returned to growth and profitability.
 - We achieved several major milestones that significantly improved our business and financial position:
 - we captured a significant licensing engagement,
 - delivered initial samples of our co-development chip; and
 - we completed a \$10 million equity offering that significantly strengthened our balance sheet.
 - At CES in January next year we will demo our 7th generation technology for mobile applications, and we are on track to deliver products in the first half of 2014.
 - We are at the beginning of a massive trend, as higher resolutions and video consumption across a growing number of displays, exponentially increase the amount of pixels to be handled and driving the need for innovative approaches to high-efficiency video processing, increasing the value proposition of our technology and expertise.
 - With the recent achievement of a number of key milestones, a robust pipeline of customer engagements and licensing opportunities, and mobile products on the horizon, we are excited about the potential for Pixelworks and well positioned for the future.
 - Now, I'd like to turn the call over to Steve to review the financial details of the quarter.
-

Steven Moore, CFO

Thank you, Bruce.

Revenue for the third quarter 2013 was \$15.3 million, compared to \$9.6 million in the second quarter of 2013 and \$16.3 million in the year-ago quarter. As Bruce mentioned, the sequential increase in revenue was due to the recognition of notable licensing revenue during the quarter as well as further ramping of our PA168 for the advanced TV market. Third quarter revenue was down compared to the year-ago quarter primarily as a result of lower chip sales.

The split of our third quarter chip revenue by market was:

63% digital projection,
27% TV and panel,
10% embedded video display

Licensing revenue was \$4.8 million in the third quarter, compared to effectively no licensing revenue during the previous quarter.

Revenue from digital projection in Q3 was approximately flat quarter-over-quarter at \$6.6 million.

Revenue from TV and panel grew for the second consecutive quarter, increasing \$1.2 million sequentially to \$2.8 million in the third quarter. As previously mentioned, this strength was largely driven by the continued ramp of our PA168 for Ultra High Definition televisions.

Embedded video display revenue in Q3 was approximately \$1 million.

Non-GAAP gross profit margin was 61.6% in the third quarter, compared to 49.7% in the previous quarter and 49% in the third quarter of 2012. The increase in gross margin during the quarter was primarily driven by the higher margin licensing revenue recognized in the quarter.

Non-GAAP operating expenses were \$7 million in the third quarter of 2013 compared to \$8.7 million in the prior quarter and \$7.7 million in Q3 2012. Operating expenses for the third quarter of 2013 as well as the year-ago quarter include a reimbursement to research and development expense as the result of achieving certain milestones related to our previously announced co-development agreement.

As we discussed last quarter, the chip created as a part of this co-development agreement is expected to result in revenue beginning in the first half of 2014.

Adjusted EBITDA was \$3.5 million in Q3 2013, compared to a negative \$2.9 million in the second quarter of 2013 and positive \$1.4 million in the third quarter of 2012. A reconciliation of adjusted EBITDA to GAAP net income/loss may be found in today's press release.

On a non-GAAP basis we recorded net income of \$2.1 million, or 10 cents per diluted share, in the third quarter of 2013. This compares with a net loss of \$4.2 million or a 23 cent loss per share in Q2 and non-GAAP net income of \$300,000, or 2 cents per diluted share in the third quarter of 2012.

Moving to the balance sheet, during the quarter Pixelworks successfully completed an equity offering totaling approximately 3 million shares at a price of \$3.50 per share, which generated net proceeds of approximately \$9.6 million. Cash and marketable securities ended the quarter at approximately \$21.5 million, compared to \$11.2 million at the end of the previous quarter. The company had no debt and a zero balance on its preexisting line of credit at the end of Q3 compared with a balance of \$3.5 million at the end of the previous quarter.

Other balance sheet metrics include day's sales outstanding of 15 days at September 30, compared with 25 days at the end of the prior quarter, and inventory turns of 11.3 times in Q3 compared to 8.8 times in the second quarter of 2013. The recognition of higher licensing revenue positively impacted both DSO and inventory turns during the September quarter.

Guidance

Looking ahead to Q4, we currently expect revenue to be in the range of \$14 to \$16 million.

We expect gross profit margin for the quarter to range between 55% to 58% on a non-GAAP basis and 54% to 57% on a GAAP basis.

In terms of operating expenses, we expect to complete the final milestone related to our co-development agreement and realize approximately \$1.8 million of reimbursement credits during the fourth quarter of 2013, which will again reduce quarterly operating expenses. As such, we expect operating expenses in the fourth quarter to range between \$7 million and \$8 million on a non-GAAP basis, and \$7.5 million to \$8.5 million on a GAAP basis.

And finally, we expect to record a non-GAAP net profit of between breakeven and 7 cents per share; and we expect our GAAP results to range between 4 cents loss per share and 4 cents profit per share.

That concludes my comments. We will now open the call for your questions.